German economy
Is springtime on the way?
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Mexican waste
Finding a dustbin for corruption
Page 10

Takeover styles
Nationality still counts
Page 9

Hong Kong
A year for living dangerously
Survey, Separate Section

FINANCIAL TIMES

Europe's Business Newspaper WEDNESDAY APRIL 27 1994 D8523A

China Airlines Airbus crash kills up to 240 in Japan

Up to 240 people died when a China Airlines Airbus A300-600R carrying 271 people on a flight from Taipei in Taiwan crashed and exploded while attempting to land at Nagoya airport in western Japan. Airbus said the aircraft was the first of its type to crash. Page 4

$139m frozen in Schneider accounts: A Swiss prosecutor has frozen some SFr200m ($139m) in accounts in Geneva banks connected to fugitive German property developer Jürgen Schneider, for whom a Frankfurt court yesterday issued an arrest warrant. Page 14

UK dismay over backing for Dehaene:

The British government reacted with dismay to signals that German Chancellor Helmut Kohl may back Belgian prime minister Jean-Luc Dehaene (left) for the presidency of the European Commission. Mr Kohl is acutely conscious of the internal political pressures on UK prime minister John Major, but is disappointed at the erratic European policy-making of the British government. Page 2

Kia to assemble cars in Europe: Kia Motors is to become the first South Korean carmaker to assemble passenger vehicles in Europe in a project to produce up to 30,000 sports-utility cars a year in Germany. Page 14

Pakistan prepares for telecoms sell-off: The Pakistan government is to seek a valuation for Pakistan Telecommunications Corporation which it plans to privatise this year. Page 19

Eastman Kodak, struggling US photographic group, said first-quarter sales and earnings, excluding special items, were virtually flat. Net income, excluding a $12m provision associated with the early retirement of debt, came in at $94m. Page 17

Japan's socialists ignore Hata: The chances of an early Japanese general election grew when prime minister Tsutomu Hata received no reply from the Social Democratic party to an invitation to rejoin his crippled coalition. Page 14; Confusion, collapse and cynicism, Page 4

Compass plans to buy US caterer: UK caterer and healthcare company Compass Group announced plans to buy US contract caterer Canteen Corporation of America for $450m. Page 16

Eurotunnel creates new class of debt: Eurotunnel is planning to raise around £650m ($949m) from a new class of senior bank debt as part of its £1.3bn refinancing package. Page 15

Allies pledge common line on Bosnia: *The four-power contact group created to restore* momentum to the Bosnian peace process pledged to present a united front in applying pressure on both Bosnian Serbs and Moslems to agree a settlement. Page 3

Akzo Nobel 30% ahead: *Economic recovery* in Europe helped push up first-quarter net profit at Dutch-based chemicals group Akzo Nobel by 30 per cent to Fl 281m ($148m). Page 17

Publication of Euro Disney audit urged: Jean Saint-Geours, chairman of Commission des Opérations de Bourse, the French stock market watchdog, urged Euro Disney's creditors to make public their audit of the troubled leisure group's finances. Page 18

Tenneco, the Texas-based industrial company, *is to sell 35 per cent* of its Case farm and construction equipment division in an initial public offering. Page 15

Hoechst 16% ahead: Pre-tax profits at German chemical group Hoechst rose 16 per cent in the first quarter *to DM506m* (($295.9m), but the company warned that growth in profits for the full year would be restrained. Page 15

UK employers see no need for rate cut: UK employers' organisation the Confederation of British Industry said it saw no *need for a cut* in UK interest rates, despite some weaker than expected indicators in its latest quarterly industrial trends survey. Page 8

SE-Banken back in profit: A sharp drop in credit *losses and big capital gains* allowed Swedish commercial bank Skandinaviska Enskilda Banken to post a SKr1.38bn ($175m) profit, compared with a SKr608m loss in the corresponding 1993 period. Page 19

■ STOCK MARKET INDICES

FT-SE 100:	3,125.3	(+19.2)
Yield	3.88	
FT-SE Eurotrack 100	1,464.12	(+14.99)
FT-SE-A All-Share	1,578.75	(+0.5%)
Nikkei	19,628.93	(-80.21)
New York lunchtime		
Dow Jones Ind Ave	3,699.24	(-6.54)
S&P Composite	451.89	(-0.82)

■ US LUNCHTIME RATES

Federal Funds:	$3\frac{11}{16}$%
3-mo Treas Bills: Yld	3.963%
Long Bond	$89\frac{11}{32}$
Yield	7.114%

■ LONDON MONEY

3-mo interbank	$5\frac{1}{4}$%	($5\frac{3}{16}$%)
Liffe long gilt future:	Jun $106\frac{13}{32}$	(Jun $106\frac{3}{32}$)

■ NORTH SEA OIL (Argus)

Brent 15-day (Jun)	$15.60	(15.795)

■ Gold

New York Comex (Jun)	$375.3	(374.9)
London	$373.70	(372.75)

■ STERLING

New York lunchtime:		
$	1.5050	
London:		
$	1.5015	(1.4916)
DM	2.5226	(2.5049)
FFr	8.6599	(8.604)
SFr	2.1535	(2.1354)
Y	154.542	(153.965)
£ Index	80.5	(79.9)

■ DOLLAR

New York lunchtime:		
DM	1.504	
FFr	5.76875	
SFr	1.43155	
Y	102.85	
London:		
DM	1.6801	(1.6794)
FFr	5.7675	(5.7685)
SFr	1.4343	(1.4317)
Y	102.925	(103.225)
$ Index	65.6	(65.7)

Tokyo close Y 103.11

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30		
Bulgaria	Lv25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50		
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00		
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225		
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr18		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30		
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00		
France	FFr9.00	Kuwait	Fils825	Poland	Zl 32,000	Tunisia	Din1.500		
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L13000		
						UAE	Dh12.00		

Mandela hails S Africa's new dawn

First all-race elections make peaceful but disorganised start

By Michael Holman and Mark Suzman in Johannesburg and Patti Waldmeir in Durban

South Africa made a disorganised but largely peaceful start to *democracy yesterday as citizens* of all races voted together and as equals for the first time in the country's history.

At *special* polling stations around the world, South Africans formed long queues, matched at home by lines of elderly and *infirm* "*special voters*" for whom yesterday had been set aside.

"Today marks the dawn of our freedom," said Mr Nelson Mandela, *president of the African* National Congress, and almost certain successor to state president F.W. de Klerk. He urged all *South Africans to go to the polls* and help in the birth of a new South Africa: "Today is a day like no other before it."

SOUTH AFRICA VOTES

Page 5

- Soweto's elderly finally come of age
- Shares and rand rise
- Expatriates join in creating real homeland

Enthusiastic voters gathered outside stations well before the *opening time* of 7am, but at many parts of the country progress was painfully slow.

Late delivery of ballot papers, shortages of polling officers and a cumbersome voting process to select candidates both for the country's national assembly and nine provincial legislatures meant that some voters had to *stand for hours*.

At some stations, the closing time of 7pm was extended. With 22.3m eligible voters, the high *turnout expected today coupled* with yesterday's problems may mean that voting, scheduled to end tomorrow night, *may have to continue on Friday*.

The ANC complained that several voting stations in the Transkei and Orange Free State had opened late or stayed closed for the day, and charged that officials from the Inkatha Freedom party were intimidating voters and telling them how to vote at some polling stations in northern Natal.

However, Mr Pallo Jordan, ANC information head, said he saw no need for any annulment of results and he was confident *the independent Electoral Commission*, responsible for organising the poll, would be able to address the "*teething problems*".

For its part, the Inkhata Freedom party – which decided only eight days ago to participate in *the elections – complained* that many ballots were without the sticker carrying the party's logo and photograph of Chief Mangosuthu Buthelezi, *its* leader, which is supposed to have been fixed to the bottom of the paper.

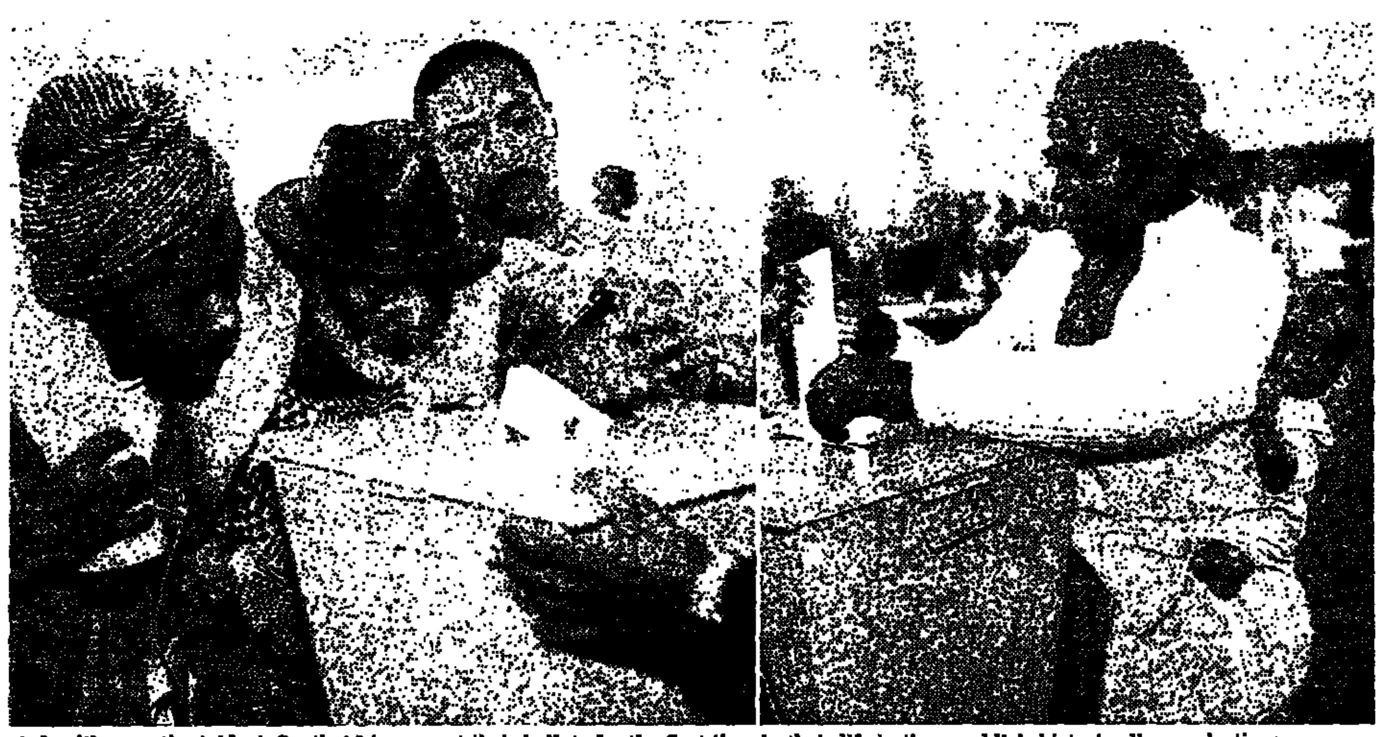
"*It savours of sabotage*", said Chief Buthelezi, who said that he had requested the IEC allow for an extra "two or three days" of voting.

Any ballot without the IFP sticker will be counted as spoiled, according to IFP officials. The electoral commission intends, however, to exempt from this requirement those who voted outside the country *yesterday* – stickers were received by few, if any, polling stations abroad.

Unless polling is extended, results are due to start being released from Friday morning. The final outcome is not expected to be announced until Sunday.

Mr Mandela, due to cast his vote today in Natal, dismissed fears that the rash of recent *bombings might hamper* polling. Mr Mandela said the full force of state intimidation had never stopped the struggle for freedom.

No serious incidents of violence were immediately reported as more than 100,000 soldiers, police and reservists were deployed in and around 9,000 polling centres across the country.



'A day like no other': black South Africans cast their ballots for the first time in their life in the republic's historic all-race elections Picture: AP

$1bn BAT bid nets American Tobacco

By Tony Jackson in London and Richard Tomkins in New York

BAT Industries, the UK tobacco and insurance giant, is to buy American Tobacco of the US for $1bn cash. The deal turns the tables on almost a century of history, since BAT was formed in 1902 *as a joint venture* between American Tobacco and Imperial Tobacco of the UK.

The purchase gives BAT *control* in the US of the Lucky Strike and Pall Mall cigarette brands, which it already owns elsewhere in the world. *It also* obtains the rights to the Silk Cut brand outside Europe.

American Tobacco, owned by *the diversified US group American* Brands, is the fifth largest tobacco company in the US, while BAT is third largest. The deal will *increase BAT's US sales* by some 50 per cent, while still leaving it in third position.

BAT's move comes at a time when the US tobacco industry is under heavy pressure. The Clinton administration is threaten*ing far-reaching legislation* to curb cigarette smoking, while the market has been fiercely competitive since Philip Morris, *the market* leader, slashed the price of its Marlboro brand a year ago.

BAT's move is also seen as unexpected, since in recent years it has concentrated on diversifying away from tobacco, using its tobacco cash flow to expand in financial services in the UK and the US.

Mr Martin Broughton, BAT chief executive, said that policy remained in place. BAT is known to have been searching recently for an insurance acquisition in continental Europe, and has expressed interest in buying a UK building society. Mr Broughton said BAT was still looking for opportunities in both areas, although he did not expect any immediate moves.

While the American Tobacco purchase will bring BAT's balance-sheet gearing to 50 per cent, Mr Broughton said he would be happy to raise the figure to 70 per cent for the right

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Economists predict 1.5% German growth

By Quentin Peel in Bonn and David Waller in Frankfurt

Five of Germany's six leading economic institutes yesterday threw their weight behind the most optimistic forecasts of German economic recovery, while calling on the Bundesbank to cut interest rates by up to two more percentage points.

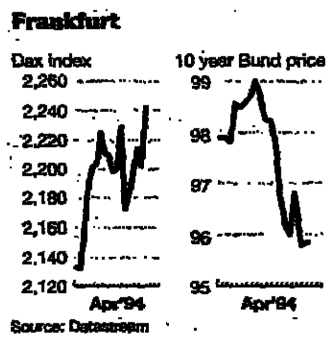
The five – excluding the Berlin-based German Institute for *Economic Research* (DIW) – predicted a 1 per cent recovery of the west German economy this year, and a 1.5 per cent growth rate including east Germany.

The report by the institutes coincided with a sharper than expected rise in the country's March money supply figures, with the broad money supply measure, M3, expanding by more than 15 per cent. Government bond prices firmed nonetheless, with *news* of good first quarter Mercedes-Benz sales and profits from the Hoechst chemicals group lifting the economic mood.

The institutes warned, however, that unemployment would continue to rise, in spite of the turnround from last year's downturn, when gross domestic product shrank by almost 2 per cent. They also called for firmer gov*ernment action* to deregulate the German economy, including measures to tackle the "monopolies and cartels" amongst the energy utilities and the major private banks.

The DIW, the one dissident voice in the institutes' spring survey of the German economy, suggested that the sharp reduction in real wages would squeeze consumer spending, and outweigh the benefits of increased export orders, causing a renewed economic downturn in the summer. *It forecast zero growth* for west Germany, and 0.5 per cent for the whole economy.

Frankfurt



Source: Datastream

The latest Bundesbank money supply figures for March showed the broad M3 measure had dramatically overshot its target corridor for the fourth month running. M3 grew at a seasonally adjusted, annualised rate of 15.2 per cent last month, down from still higher levels in January and February, but well outside the central bank's 4 to 6 per cent target range for the year.

The Bundesbank blamed the high figure on a number of factors, the chief among them being the lack of "monetary capital formation" in March as interest rate and bund market uncertainties encouraged investors to keep cash on short-term deposit.

The figure was at the worse end of market expectations and seems likely to ensure that the M3 target for 1994 will not be met even if there is a significant reversal of "special factors" the Bundesbank blames for distorting money supply growth.

Economists said the figure was unlikely to interfere with the Bundesbank's policy of making gradual cuts in interest rates. On unemployment, the institutes suggest a probable rise from a level of 3.42m last year to 3.82m in 1994.

Perversely, German government bond prices gained half a point in volatile trading. On Liffe, the bund futures contract reached a high of 94.52 before ending the day at 94.26, up 0.61 from the previous close.

Bonds volatility "defies realities", Page 2; *Green shoots of German recovery*, Page 13; Hoechst profits up, Page 15; Mercedes sales ahead, Page 15

Banco Santander shares lose 7% after Banesto bid

By David White in Madrid

Shares in Banco Santander, the Spanish banking group, fell by 7 per cent on the Madrid market yesterday after its successful bid to buy control of Banco Español de Crédito (Banesto).

Santander is to finance Pta89bn of the Pta281bn ($2.05bn) *acquisition – Spain's biggest takeover* – through a one-for-three rights issue.

The new shares will be offered at Pta2,250, less than half the current market price. Santander's shares dropped by Pta440 to Pta5,710 yesterday.

Banesto shares climbed 15 per cent to Pta868, close to their highest point since the Bank of Spain intervened in Banesto last December. Other bank shares also rose.

Santander's Pta782-a-share bid for 60 per cent of Banesto's stock far exceeded most expectations and was well above rival bids from two other banks. The shares come from a recent recapitalisation, part of a rescue *operation* funded jointly by the Bank of Spain and the private banking system.

Mr Emilio Botín, Santander's chairman, said part of the shareholding might be taken up by *associated institutions in the UK* and the US. Santander holds just under 10 per cent of Royal Bank of *Scotland and 24.5 per cent of* New Jersey-based First Fidelity Bancorp.

However, he said *Santander* intended *to keep a stake* of at least 40 per cent in Banesto, after offering 8 per cent of the shares to its own shareholders.

He said the price was "absolutely reasonable" and claimed *the bank* had "sufficient arguments" for maintaining its AA credit rating.

However, the rating agencies IBCA and Standard and Poor's both said they were putting Santander under review "with negative implications".

Mr Botín said Santander should still be able to increase earnings commensurately with the trend in the first quarter, when consolidated pre-tax profits rose 9.7 per cent to Pta34.2bn. Banesto was expected to resume paying dividends in 1997 or 1998.

Mr Alfredo Sáenz, the caretaker Banesto chairman who is being kept on by Santander, said Banesto would focus on standard retail banking activities.

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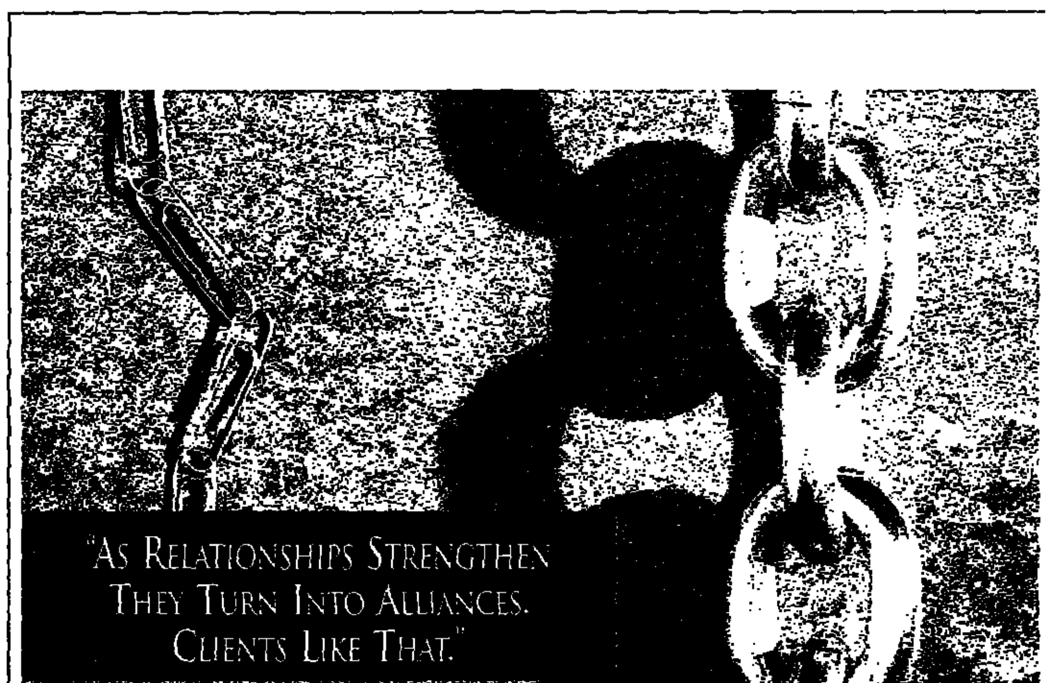

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CONTENTS

France takes the offence out of D-Day

By David Buchan in Paris

France yesterday unveiled its secret weapon to win its diplomatic battle to mark the 50th anniversary of the allied landings on the beaches of Normandy without offending Germany, its erstwhile enemy but bosom buddy of today.

It is a 700-tonne "memory machine", or metal pyramid, that will form the stage for 2,400 young actors to enact an allegory of war, peace and reconciliation in the Norman city of Caen on the night of June 6.

Unveiling plans for the spectacle yesterday, Caen's mayor, Senator Jean-Marie Girault, said he hoped that it would send out "a message of peace and hope", and that even young Germans would take part in it.

Some German members of an international school in Berlin had already volunteered to do so, said Mr Girault, whose earlier plan to have Chancellor Helmut Kohl join allied leaders in Caen failed to win government endorsement.

Outlining plans for his FFr30m (£3.5m) spectacular – a far cry from the "spam-frittering" activities in Hyde Park originally envisaged as Britain's cultural contribution to the D-Day commemoration – Mr Jean-Pascal Lévy-Trumet, the 36-year-old organiser, said the pyramid would initially be covered in green-for-peace verdure that, as the 60,000 spectators took their seats around it, would be stripped off gradually to mark the approach of war.

Symbolising the onset of war, the pyramid would appear to crack up with red-lit fissures which would then sprout flames of lights to mark pockets of resistance as well as landing strips for allied aircraft.

As for D-Day itself, the young actors pouring out of the top of the 16-metre high pyramid will represent paratroopers; those approaching its base the beach invaders. Having transformed itself into a cross-studded cemetery for the dead of all sides, the pyramid extravaganza will end with the rather more predictable release of white balloons.

French television has complained that the spectacle is too difficult and too late in the evening to broadcast direct, but Mr Jacques Toubon, the culture minister, was yesterday confident of wide TV coverage.

He added that among other events he was organising was a round-table discussion on the wartime allies' influence on Europe – a subject on which he is evidently ambivalent. Next week, Mr Toubon will be presenting the national assembly with his bill to promote the use of French, and restrict that of English, in French public life.

German stance on Dehaene candidacy expected to colour today's Kohl-Major summit

British dismay over succession to Delors

By Philip Stephens in London and Quentin Peel in Bonn

The British government yesterday reacted with dismay to signals that Chancellor Helmut Kohl may back Mr Jean-Luc Dehaene, the Belgian prime minister, for the presidency of the European Commission.

On the eve of talks at Chequers later today between Mr John Major, the UK prime minister, and Mr Kohl, Downing Street made no formal comment on the potential candidacy of Mr Dehaene. A senior prime ministerial aide would say only: "We don't know much about him."

Although officials in Bonn confirmed that the question of the successor to Mr Jacques Delors as Commission president would be an important item on the bilateral summit agenda, they certainly do not want anything to sour a determined effort to repair the two governments' recently rather tattered relations.

Both sides agree the main focus of today's meeting will be on a long-term strategy to bring the former communist countries of eastern Europe steadily towards eventual membership of both the European Union and Nato.

Mr Kohl, who faces a series of elections this year in Germany, is acutely conscious of the internal political pressures on Mr Major, and does not want to give his opponents any ammunition. On the other hand, he is obviously disappointed at the erratic European policy-making of the British government, not least on the issue of EU enlargement.

"We have worked together extremely well in the past, and we want to do so again," a German official said. "We want to develop a common policy [on central and eastern Europe]. This is an example of the sort of concrete alliance Mr Major has also talked about."

However, the determination of both sides to stress their common ground was belied by the dismay among British ministers and officials that Mr Kohl and President François Mitterrand may be preparing to back another avowed European "federalist" to succeed Mr Delors.

Ministers predicted such an appointment – supposed to be made at the EU summit in Corfu in June – would provoke uproar among the growing band of Eurosceptics on Tory backbenches at Westminster.

In his talks with Mr Kohl today Mr Major is expected to press again the alternative candidacies of Sir Leon Brittan, the British Commission vice-president, and Mr Ruud Lubbers, the Dutch prime minister.

But Whitehall officials said Mr Major did not want to find himself in the position of threatening to veto Mr Dehaene only to find himself forced subsequently to retreat, as he was forced to over European Union voting rights.

Lubbers leaves heirs and rivals a hard act to follow

Dutch national elections expose the vulnerability of political aspirants, writes Ronald van de Krol

Mr Ruud Lubbers is a hard act to follow, as his rivals and political heirs in the Netherlands are ruefully discovering in the run-up to national elections on May 3.

Mr Lubbers, 54, the longest-serving prime minister in Dutch history, is leaving national politics after three consecutive terms in office. His departure is a serious blow to his Christian Democrat party (CDA), which traditionally dominates Dutch politics but which is now struggling in the polls.

When the Lubbers era began in 1982, the country's crippling public debt, its rigid labour market and its dual problems of inflation and unemployment had spawned the pejorative term "Hollanditis." But as he prepares to leave office, possibly to fight for the presidency of the European Commission in Brussels, Mr Lubbers leaves behind a surprisingly muscular economy.

In the early 1980s, his "no-nonsense" approach and radical (by Dutch standards) cuts in social benefits earned him the nickname "Ruud Shock" abroad, making him one of the few Dutch prime ministers whose name is known to foreigners.

Mr Lubbers exploited the recession of the early 1980s to cut the pay of civil servants and scale back unemployment and disability benefits. In his 12 years in office, he also cut the budget deficit from 10.1 per cent of net national income to 3.8 per cent, although the absolute level of public debt has continued to rise.

In normal times, Mr Lubbers' anointment of Mr Elco Brinkman as his successor as party leader would have been enough to ensure that Mr Brinkman would also succeed him as prime minister. The CDA has had a place in every government coalition since the second world war, and it usually provides the prime minister. This year, however, the Dutch electoral race is wide open, and the CDA's support is crumbling.

Part of the problem is the transition from a popular, well-tried politician in Mr Lubbers to Mr Brinkman, who has led the CDA in the lower house of parliament for the past four years.

Mr Lubbers has clearly become an institution. In a recent newspaper interview he admitted: "There are whole generations of people who think only of Ruud Lubbers when they hear the word prime minister. Younger voters have experienced only me. From a democratic perspective, it's good to turn this page."

But the handover to Mr Brinkman has been messy, culminating in signs of disagreement and friction between the two men. Mr Lubbers first signalled his preference for Mr Brinkman after the CDA's last electoral victory in 1989, putting his successor in the uncomfortable and visible role of "heir apparent" for nearly five years.

Before and after: Lubbers (left) and Brinkman

Matters were not helped by the presentation of the CDA platform in January, when plans to freeze old age pension payments sparked a storm of protest. The chairman of the CDA, Mr Wim van Velzen, resigned to take the blame but much of the fault was apportioned to Mr Brinkman.

Then, in early April, it emerged that Mr Brinkman held a non-executive directorship at a company linked to his wife's uncle who was known to have had run-ins with the tax authorities. The episode has dominated news reporting in the crucial weeks before the elections.

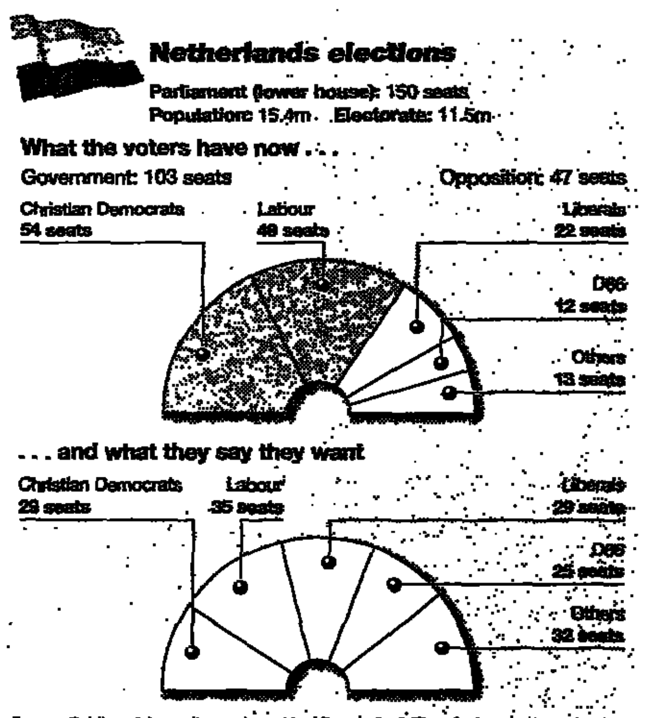
Mr Brinkman can draw some comfort from the fact that Mr Lubbers, too, began his tenure as premier facing low popularity and high scepticism, both inside and outside the party.

The two men share other similarities. Although Mr Lubbers is a Jesuit-educated Catholic while Mr Brinkman grew up in a conservative Calvinist area east of Rotterdam, both men were high-fliers who attained national office early.

Mr Lubbers, scion of a rich Rotterdam industrialist, was minister of economic affairs when he was just 34 and became prime minister at 43, the youngest in Dutch history.

Mr Brinkman, son of a small-town mayor, became minister of culture and health at the age of 34. Now aged 46, he has a stiff and forbidding image that belies his youth.

Both men launched their bids for the prime minister's job from their positions as leader of the CDA in parliament. But the truth *now* is that the outlook for the CDA is so grim that the unthinkable *may happen: the Netherlands' "party of government"* could be transformed into a party of opposition.



Source: Public opinion polls conducted by Nipo on April 23 and 24

Christian Democrats could be shut out for first time since the war

Coalition set to change its hue

The Dutch need not be experienced pollsters to know that next week's general election will result in a coalition. Coalitions, their creation and their downfall are the very stuff of Netherlands politics, and the election on May 3 will be no exception, writes Ronald van de Krol in Amsterdam.

This year, however, the prospect of a "purple" coalition – one embracing the Labour party, with its traditional red logo, the left-of-centre D66, and the "Tory" blue right-wing Liberals – is *exciting the population*. Such a left-right alliance would be all the more unusual because it would shut out the centrist Christian Democrats, linchpin of every cabinet since the second world war and force them into opposition.

The precise composition of the next government will take weeks, and perhaps even months, to work out. It is already clear, however, that this election will be the closest in years. Support is falling sharply for the Christian Democrats and Labour, the two parties (traditionally the largest) which comprise the present governing coalition. At the same time, the two smaller "swing" parties, the Liberals and D66, are gaining ground.

Recent polls indicate that these four parties will each win between 25 and 35 seats in the 150-seat lower house of parliament. This implies that the next coalition will need, for the first time since the 1970s, to include at least three parties to create a majority.

"These is the most dramatic shift within the political arena that I've ever experienced," says Mr Ger Schild, director of research at Nipo, the Netherlands' leading polling organisation.

The swing away from the Christian Democrats reflects their internal divisions as the party's veteran prime minister, Mr Ruud Lubbers, makes way for his successor, Mr Elco Brinkman. The latest Nipo poll gives the party just 29 seats, against its current 54.

The Labour Party, by contrast, is still suffering in the polls because of the role it played in reforming disability insurance, a central part of the country's generous welfare state system. This alienated the party's traditional voters and Labour is forecast to drop to 35 seats from 49 seats in 1989. However, this represents a gradual recovery from late last year when the party was forecast to win less than 25 seats.

Labour has been helped by the cross-party popularity of its leader, Mr Wim Kok, who is finance minister in the current centre-left coalition. One recent poll showed that almost a quarter of people questioned wanted Mr Kok as the next prime minister compared with less than 6 per cent for Mr Brinkman.

Even more telling, however, is that the favourite for prime minister is Mr Lubbers. He commands a rating of more than 40 per cent even though he has insisted for the past five years that he will not serve again.

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Bonds volatility defies realities, says Tietmeyer

By Christopher Parkes in Frankfurt

Recent turbulence in world bond markets seemed more a reaction to myths than to realities, Mr Hans Tietmeyer, Bundesbank president, said yesterday.

The volatility was hard to explain partly because financial markets were not necessarily governed by logic, he told the American Council on Germany in New York. Financial transactions had come uncoupled from the real economy.

"In addition to cyclical factors the underlying reason may have been a rise in inflationary expectations, especially in the US. But that does not say anything as to whether that rise has been justified."

In any case, the scale of the response was out of proportion to the relatively modest changes in economic prospects, Mr Tietmeyer added.

Noting that "markets sometimes over-react", he suggested other factors such as more activist portfolio managers and the widespread use of derivatives might have contributed to the volatility.

Although the Bundesbank has recently shown increasing concern over the implications for market stability of the free-for-all activity in financial market derivatives, Mr Tietmeyer's comments were relatively restrained.

Current globalisation trends in capital markets, cross-border investments' rising share of assets under management and other factors might further increase the potential for volatility, he said. There was no need for panic, but learning to live with the new situation implied a need to understand market behaviour and analyse the associated risks for the banking system and implications for monetary policy.

This did not require new legislation, but market transparency and disclosure requirements had to be improved and "risky activities" of financial institutions had to be underpinned by adequate capital, Mr Tietmeyer proposed.

The best way to proceed to avoid distortions of competition was through international co-ordination.

Although he suspected he might be accused of "carrying coals to Newcastle", Mr Tietmeyer felt obliged to bring up some of the adverse consequences which had accompanied globalisation and liberalisation of capital markets.

These included the "bubble" or surge in asset prices in some countries which was later to collapse.

Even small changes in capital flows could have profound effects on foreign exchange and capital markets, let alone the massive speculation in Europe in the last two years which led to a shake-out of the European Monetary System.

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EMI chief drops call for narrow currency bands

By Lionel Barber in Brussels

Mr Alexandre Lamfalussy, president of the European Monetary Institute, yesterday told the European Parliament he had changed his mind about the need to revive the exchange rate mechanism's narrow fluctuation bands. Currency stability was the fundamental objective, he said.

Mr Lamfalussy's remarks on the future of the ERM reflect a new consensus among central bankers, the European Commission and the Bundesbank that the 15 per cent fluctuation bands – introduced as a crisis measure last August – have helped not only to deter speculators but to reinforce currency stability.

The EMI president said he favoured keeping the wide bands for as long as possible. "A forced return [to the old ERM] which fails would be the worst possible outcome."

The unexpected success of the crisis measures still leaves ministers with a dilemma: how to reconcile the 15 per cent bands with the Maastricht treaty's provision that a currency must be a member of the "normal" ERM bands for at least two years in order to qualify to join a future single European currency.

Mr Lamfalussy suggested that ministers would probably decide by the end of the year whether to describe 15 per cent as normal. This would keep alive hopes of moving to a single currency by the first target date of January 1 1997. "With wide bands, 1997 becomes more feasible," he said.

But in his testimony to the parliament's monetary affairs committee, Mr Lamfalussy spelt out formidable technical obstacles to European Monetary Union. These included planning for a single monetary policy; harmonising accounting rules and practices among national central banks; creating a proper statistical base; the printing and issuing of a European banknote; and a payments systems in the final stage of Emu.

Mr Lamfalussy expressed cautious optimism about exchange rate stability, tempered by a warning to member states to reduce their budget deficits which reached a record high last year.

Failure to do so risked an increase in long-term rates which could choke off the incipient recovery in Europe.

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EUROPEAN NEWS DIGEST

French to beat deficit target

The French government is aiming to reduce its budget deficit to between FFr275bn ($47bn) and FFr280bn for 1995, compared with a target of FFr300bn this year, officials said yesterday. The objective is in line with the government's five-year budget plan which seeks to reduce the public sector deficit to 3.5 per cent of gross domestic product next year, and to 2.5 per cent of GDP by 1997. In 1993, the deficit represented just over 4 per cent of GDP.

In a letter to ministers, Mr Balladur, the prime minister, said 1995 "should mark a new step in the redress of the public finances." He called on each ministry to present proposals which would enable a 1.5 per cent reduction in government spending, excluding debt servicing. Productivity gains of 1.5 per cent will also be sought from public sector employees, although the prime minister made no mention of job cuts.

The targets revealed yesterday are the first step in forming next year's budget. Estimates of revenues are expected to be finalised by the autumn, after which the budget law will be presented to the cabinet and parliament. *John Ridding, Paris.*

Minister proclaims innocence

Mr Gérard Longuet (left), France's trade and industry minister, said yesterday he was "astonished" and "a little disconcerted" at a judge's move to widen an investigation into his Republican Party's finances by probing into Mr Longuet's own property purchases. Mr Renaud Van Ruymbeke, a judge in Brittany who has also pursued irregularities in the Socialist party's funding, has been investigating a 1988 commission of FFr4.4m ($750,000) from Pont-à-Mousson, a pipe-making company based in Mr Longuet's home region of Lorraine, which allegedly reached an RP councillor in Nantes via the Swiss bank account of a local industrialist. Mr Longuet, who was national treasurer of the RP at the time, confirmed yesterday that the judge was trying to find out whether any of the Pont-à-Mousson money ended up in Mr Longuet's properties in Paris and the south of France. Mr Longuet, who yesterday said he had "all the serenity of someone who is on the right side of the law and the tax authorities," has been tipped to succeed Mr Edouard Balladur as prime minister if the latter becomes president. *David Buchan, Paris.*

VW espionage case widens

The discovery of fresh evidence and the investigation of new suspects in the long-running Volkswagen/General Motors industrial espionage case are expected to be announced by German state prosecutors today. Mr Volkmar Kallenbach, spokesman for Darmstadt criminal investigators, said today's report on the case would deal with "new findings" and the scope of the investigation. However, Mr Kallenbach yesterday denied reports that Mr José Ignacio López de Arriortúa, VW's production director, would soon face charges. Furthermore, he would neither confirm nor deny German media reports that plans for a revolutionary new VW car factory had been found to be virtually identical to a similar secret project on which Mr López worked while at GM.

The probe which started last spring into allegations that Mr López and three former colleagues from the US group took industrial secrets with them when they abruptly joined VW last March is still far from complete and legal experts said today's statement was unlikely to contain many details since the prosecutors had to be careful to avoid prejudice in the event of future charges and trial. *Christopher Parkes, Frankfurt.*

Solidarity steps up demands

Poland's Solidarity trade union yesterday called on the government to remove state sector wage controls and limit planned energy price rises as a condition for suspending strikes by power workers. The demand came after Mr Marek Pol, the industry minister, told strikers at the Belchatow power plant that he would drop plans to restructure the opencast lignite mining sector which has until now been the strikers' chief demand.

In response the miners agreed to step up coal supplies to one third of Poland's generating capacity, thus removing the threat of power cuts, but said that the action would be resumed tomorrow if wage controls were not lifted. Solidarity has called an eight-hour general strike in Warsaw tomorrow to back the demands which include the implementation of collective wage bargaining procedures promised last year. *Christopher Bobinski, Warsaw.*

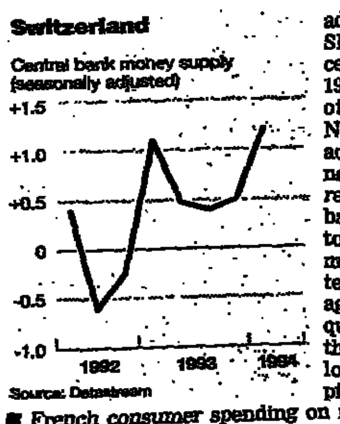
Peugeot relents on lobby group

PSA Peugeot Citroën, the French carmaker, has ended its three year boycott of the European Automobile Manufacturers Association (Acea) and has decided to join the industry's main lobbying group in Europe. Peugeot has remained isolated in the European motor industry since late 1990, when Mr Jacques Calvet, the group's chief executive, refused to join the new lobbying group in a bitter disagreement over voting rights.

Mr Calvet, the most vociferous opponent of Japanese car imports in Europe, had insisted that the association should operate with the principle of unanimous decision-making, but the rest of the industry had refused to grant the French carmaker a right of veto. It is understood that Peugeot has now decided to join Acea partly out of concern that it might become isolated from future pan-European research and development projects in the motor industry. The industry is about to form the European Council for Automotive Research and Development (EUCAR) in order to enhance the scope of European collaboration in research and development. *Kevin Done, Motor Industry Correspondent.*

ECONOMIC WATCH

Swiss money supply up 1.2%



Switzerland's seasonally adjusted monetary base rose SFr350m (£168m) or 1.2 per cent in the first quarter of 1994 from the fourth quarter of last year, the Swiss National Bank said. The adjusted monetary base (bank notes in circulation plus bank reserves held with the central bank divided by seasonal factors) is the SNB's chosen measure for tracking medium term monetary policy. It averaged SFr30.078bn in the first quarter, slightly higher than the SFr29.9bn forecast, due to lower interest rates and a pick-up in the Swiss economy.

- French consumer spending on manufactured goods was 1.8 per cent higher in March 1994 than March 1993, according to detailed seasonally adjusted figures released yesterday by Insee, the national statistics institute.
- Dutch seasonally adjusted manufacturing output rose 1 per cent in February from January but was almost flat year-on-year, the Central Bureau of Statistics said yesterday.
- Consumer prices in the western German state of Hesse rose 0.3 per cent in the month to mid-April and were up 3.2 per cent from a year earlier, the state statistics office said yesterday.

Russian gas shares to be offered in the west

By Leyla Boulton in Moscow

Gasprom, the world's biggest gas producer, is to offer up to 10 per cent of its shares to foreign investors after completing in a month's time the biggest domestic flotation in Russia's privatisation programme.

Mr Valery Remizov, deputy chairman of Gasprom, said yesterday it was too early to say when and where this 10 per cent stake would be offered to investors as the company was still working on a western-style presentation of its accounts and a market estimate for the value of its shares. But he confirmed that Gasprom was likely to offer some, if not all, the 10 per cent in the west.

Following last Monday's public offering of 28.7 per cent of Gasprom at auctions for privatisation vouchers reserved for Russian citizens, Gasprom will also be buying 10 per cent of its own stock at its artificially low Russian book value, of just Rbs236.7bn (£89.7m). It is this 10 per cent which may be offered to foreigners. The aim is to enable Gasprom to re-sell these shares to the highest bidder to raise funds it needs to develop new deposits in the Yamal peninsula and elsewhere. Gasprom staff already own 15 per cent of the company, while another 5.2 per cent is being reserved for inhabitants of the Yamal-Nenetsk autonomous region in the far north. The state holds the remaining 42 per cent.

Mr Rem Vyakhirev, Gasprom's chairman, said yesterday it was "pointless" using figures to illustrate the company's financial position, however, because not all customers in the former Soviet Union paid their bills.

Although he said Gasprom earned $6bn to $7bn a year from exports to the west and last year sold Rbs36,000bn ($20bn) worth of gas to customers in the former Soviet Union, the latter still owed it Rbs5,000bn. This meant that little had been left over for investment and any profit figure existed "only on paper".

The government on Monday launched a series of Gasprom auctions to be held in 60 regions of Russia for individuals holding privatisation vouchers – excluding even the Russian investment funds which have bought stakes in privatised Russian companies on behalf of small investors.

"We want to reserve this sale for ordinary citizens who have not yet used their vouchers," Mr Anatoly Chubais, the deputy prime minister for privatisation, said yesterday.

His aim is to ensure that all of Russia's 150m citizens use the voucher they received free of the charge by the time the voucher programme expires on July 1.

Mr Chubais, who fought stiff opposition to incorporating this jewel of Russian industry in the programme giving away shares to the public for vouchers, said he expected the sale to attract 20m vouchers, or up to 20m small shareholders.

Diplomats seek four-month ceasefire as fears grow of renewed outbreak of fighting in north-east

Big powers pledge to take common line on Bosnia

By Philip Stephens and Edward Mortimer in London and Laura Silber in Belgrade

The four-power contact group created to restore momentum to the Bosnian peace process yesterday pledged to present a united front in applying pressure on both Bosnian Serbs and Moslems to agree a negotiated settlement.

Mr Warren Christopher, the US secretary of state, warned the Bosnian Serbs to complete by this morning's deadline the withdrawal of heavy weapons from around the besieged town of Gorazde.

But speaking in London before flying to Geneva for talks with Mr Andrei Kosyrev, the Russian foreign minister, Mr Christopher made clear that the latest military threat to the Serbs would be followed by intense diplomacy to secure a four-month ceasefire.

The four-power contact group – comprising Russia, the US, the UN and the European Union – resolved at its first meeting in London to avoid the splits between the west and Russia which have dogged attempts to secure an accord between Moslems and Serbs.

It would adopt a twin-track approach in seeking both a ceasefire and a new "map" for Bosnia involving substantial Serbian withdrawals from territory seized from the Moslems.

The Bosnian Serbs said yesterday they had complied with the Nato demand to pull back all heavy weapons to at least 20km (12 miles) from the UN safe haven of Gorazde. UN commanders on the ground still have to receive verification and were unable to determine whether they were being shifted northwards for a fresh offensive.

Serbian media also accused the Bosnian Moslem army of planning an imminent offensive in northern Bosnia. A UN official yesterday said the UN had received reports but could not track the movements of both armies.

UN military observers are only stationed on one side, behind Moslem-led government lines. "We are not an army and have only five military observers," said the official. "We don't think either side can make significant gains in that area," said a senior UN military officer, speaking from Sarajevo. "Obviously the Bosnian Serbs want to widen their corridor south of Brcko, but we don't believe they'll mount another major offensive there as they did last year."

Bosnian radio said Serb forces yesterday morning started shelling Bosnian army positions near the north-eastern town of Brcko, at the narrowest point of the corridor linking Serbia to Serb-held Bosnia and Croatia.

Witnesses say that Bosnian Serb forces are preparing to launch an offensive amid charges that Croat forces have been massing to the north. Since the war erupted two years ago, the alliance between Moslems and Croats in the region has held even when it collapsed to the south.

The preservation of the self-styled "Serb Republic" in Bosnia depends on maintaining the land corridor. But the UN officer stressed that the UN had no direct interest in the area, which unlike Gorazde has not been declared "safe" by the Security Council.

He also accused Bosnian government forces of violating the ceasefire in Gorazde, by trying to trap a Serb unit within the enclave so it would become a target for Nato airstrikes when the ultimatum expires today.

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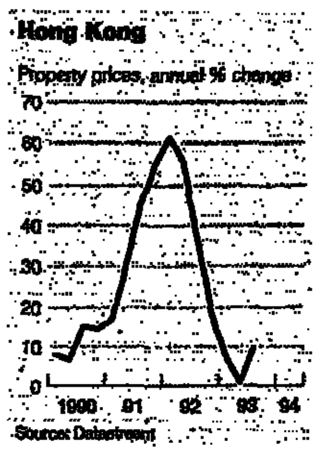
Land hoarders under fire from HK bank

By Simon Holberton in Hong Kong

Hong Kong's largest financial institution yesterday implicitly criticised property developers for hoarding land but warned the government against drastic measures in cooling the colony's overheated property market.

The Hongkong Bank said in a report that the best way to bring high property prices down was to increase the supply of land for development. A "more desirable pattern of price behaviour" could be achieved if steps were taken to ensure this better land supply was developed quickly and "not simply added to developers' land banks".

But the bank warned the Hong Kong government, which has initiated an inquiry into high property prices, against taking any precipitate action. The colony's economy would be severely damaged if the government adopted a set of measures leading to a collapse in the market, it added.



Most personal wealth in Hong Kong is bound up in property, either through direct ownership or the stock market. More than 50 per cent of the earnings of stocks included in the Hang Seng index are directly dependent on property. The property market last cracked in the aftermath of the Tiananmen massacre in June 1989.

Earlier this month, the government set up a task force to recommend measures the administration should take to curb the market. It is expected to report to Governor Chris Patten in three months, but there is evidence that the announcement of this inquiry has already had an effect.

Property agents have reported a fall-off in transactions this month, as would-be purchasers hold back awaiting the government's measures. Prices have responded, with values for a standard 600 sq ft to 800 sq ft flat falling about 10-15 per cent.

In the first three months of the year, prices reportedly rose 20-30 per cent. They have been propelled upwards by mainland Chinese investors, many whom pay in cash, buying into the market as a hedge against inflation and a possible devaluation of the yuan.

The Hongkong Bank highlighted the role of property developers as financiers. In the first three months of this year, developers provided finance for more than 60 per cent of the new properties offered for sale.

Airbus crash kills up to 240 in Japan

By Michiyo Nakamoto in Tokyo and Paul Betts in London

A China Airlines aircraft bound from Taipei in Taiwan to Nagoya in western Japan crashed off the runway of Nagoya Airport last night, leaving almost 240 people dead. It was Japan's second-worst air crash.

The Airbus A300-600R, carrying 271 people, plunged headlong into the grass to the right of the runway and burst into flames, according to witnesses.

Early today, only 14 people had been confirmed alive.

The immediate cause of the crash was not known but airport control confirmed that the weather was moderate and the visibility clear.

Witnesses said that the Airbus, whose wheels were not visible, had approached the airport's runway, then suddenly turned its nose upwards as if to abort the landing, before plunging into the ground within seconds and almost at a 90-degree angle.

Bits of the aircraft were scattered across several hundred metres. Parts burst into flame and burned for 40 minutes as rescue teams tried to free passengers trapped inside.

One passer-by said that the airliner had made a loud booming sound and that what appeared to be the engines on each side of the aircraft had given off a flash briefly before the crash.

A China Air Lines official said company representatives were on their way to Nagoya but could not confirm reports that the aircraft which crashed had left Nagoya airport yesterday morning after a delay caused by engine trouble.

Airbus Industrie said last night that three engineers had left for Nagoya. The company added that the official inquiry would be handled by the Japanese authorities.

Airbus declined to comment on possible causes of the accident, adding this was the first A300-600R to have crashed. It was delivered to China Airlines on January 29 1991.

The A300-600R is an upgraded version of the A300 series of wide-body, twin-engine passenger jets which entered service in 1984.

Stakes are high and odds are poor as Japan battles political collapse

Tokyo coalition is floundering in the mire, writes William Dawkins

Japan's foreign partners could be forgiven for gaping in astonishment at the political antics of the world's second largest economy over the past 24 hours.

No sooner had Japan's politicians ended two weeks of wrangling to elect a new prime minister, Mr Tsutomu Hata, than his attempt to form a government collapsed in confusion and recrimination.

The cause of the crisis, which might provoke an early general election, was a walkout by the Social Democratic Party, the coalition's largest member. The SDP felt insulted and betrayed by the formation of a new conservative grouping, called Kaishin (Innovation) by centre-right members of the alliance only hours after the socialists had voted Mr Hata to the leadership.

The SDP walkout leaves the remaining members of Mr Hata's coalition 56 votes short of a parliamentary majority, without precedent for any post-war government. The socialists, some of whom seemed almost relieved to be in opposition again, have pledged to co-operate on passage of the current budget and measures to stimulate the economy.

Beyond that, Mr Hata has little chance of being able to govern, unless he can somehow win the socialists back. The stakes are high and the odds poor. If he cannot produce the income tax cut before the summit of the Group of Seven industrial nations in July, this will stoke US frustration, push up the yen and jeopardise fragile recovery prospects.

At least two evening newspapers yesterday forecast an early general election, which would make Mr Hata's administration one of the shortest on record. "The ruling coalition has virtually collapsed. Their power game. . . has failed," said Mr Yohei Kono, president of the opposition Liberal Democratic party. "The time for a showdown has come," he said.

"For the first time, it looks as if things have got so bad that the deadlock might have to be resolved by going to the people," said Mr Jesper Koll, chief economist at S G Warburg Securities in Tokyo.

Should they wish to precipitate an election, the SDP and LDP have enough combined weight to win a parliamentary vote of no confidence in Mr Hata, who does not yet have a cabinet or a government.

A vote of no confidence could happen sometime after the passage of the budget, possibly in June, on the assumption that all involved believe it would be irresponsible to dissolve parliament without assuring the government's finances for this year.

Some analysts believe the LDP and SDP might be tempted to go to the polls. Larger traditional parties would do better in a snap poll under the existing multi-seat constituency system. The new system, due to come into effect towards the end of the year, will comprise mixed single seats and proportional representation and is likely to favour smaller parties.

Mr Ichiro Ozawa, who as deputy leader of Mr Hata's Japan Renewal Party is the new prime minister's political mentor, is widely assumed to be the guiding hand behind the new Kaishin grouping.

He appears to have been hoping to attract enough defectors from the SDP and the LDP to summon a majority. But it looks as if this latest stratagem of Mr Ozawa has badly misfired. There were no new defections yesterday. Instead, the socialists, the New Harbinger Party - another disaffected former coalition member - and the LDP closed ranks.

"This is typical of Mr Ozawa's high-risk tactics. It could either be a stroke of genius or a disaster. On the evidence so far, it looks like a disaster," said a western diplomat.

Mr Hata has come out of this badly. His claim on television to know nothing about plans to form a new group on the grounds that it was a purely JRP matter, sounded unconvincing to at least half the audience, since Mr Hata is head of the JRP. To the half that did believe Mr Hata's protestations of innocence, the new leader looked foolishly ignorant of Mr Ozawa's machinations.

Few people fault Mr Ozawa's perception, shared by Mr Hata and Mr Morihiro Hosokawa, the former prime minister, that Japan is evolving a two or three party system of two large groups. Kaishin's formation marks a lurch towards that system, albeit faster than most people expected.

The vision might be right, but Mr Ozawa's method aroused widespread aversion yesterday. A poll by TV Asahi yesterday found that three-quarters of respondents opposed this forceful style of driving out the socialists.

A straw poll unearthed a mixture of distaste and admiration, with some arguing that the JRP had flouted its obligations to the SDP embodied in an almost sacred Japanese concept of *giri* (duty).

"What I don't like about Mr Ozawa is that he pulls the wires behind the shadows," said Mrs Sonoko Yoshimura, a Tokyo housewife. "I'm more cynical than angry," said Mr Akihiko Ohkura, a print worker.

On the side of those prepared to forgive Mr Ozawa's tactics, Mr Akira Terayama, deputy general manager at Okasan Securities, argued that force is needed to achieve political progress. The socialists were set to pull out of the coalition at some time, he argued. They were, however, probably hoping to do it in a less cataclysmic fashion.

Additional reporting by Mitsuko Matsutani

A TV station's billboard to display members of Japan's new cabinet was empty yesterday except for prime minister Tsutomu Hata AP

Reward offer highlights China venture problems

By Alexander Nicoll, Asia Editor

An unusual advertisement being placed by a British businessman in Asian newspapers could embarrass a state-owned Chinese company against which he has waged a four-year legal battle.

Mr Richard Gosling is offering a $500,000 (£340,176) reward for information on the "assets, cargo and bank accounts" of China Tianjin International Economic & Technical Co-operative Corporation (CTIETCC), his partner in a failed joint venture.

The company is effectively the commercial arm of the government of Tianjin, an eastern Chinese port city.

Mr Gosling wants to locate $4.5m of the Chinese company's money in order to enforce a 1992 judgment made in the High Court in London against CTIETCC.

Although the scale of Mr Gosling's investment was relatively small, his case highlights the absence of legal redress in China for foreign investors whose ventures go wrong. Chinese officials admit that developing a better legal system is a high priority in the country's economic reform.

Not only are there few legal avenues in China, but Chinese companies often have complex corporate networks, making it difficult to pin down a legal entity which can be pursued.

Mr Gosling's joint venture with CTIETCC, formed in 1989, was to produce printed circuit boards as well as other goods such as car tyre foot pumps. But, it was alleged no circuit boards materialised, nor did the pumps meet specifications.

The case underlines the need for foreign companies to build up their contacts and knowledge of China before investing, to negotiate carefully, and to work closely with joint venture partners after signing an agreement.

Mr Gosling obtained a judgment for £1.86m, since inflated by interest and legal costs, in the English High Court, and has since been seeking CTIETCC assets so the judgment can be enforced.

His latest step follows his failure to win a garnishee order against the Bank of China's London branch which sought to recover money from CTIETCC bank accounts in China.

World outlook for jobs 'gloomy'

By Richard Donkin, Labour Staff

The world outlook for jobs and wages remains gloomy, with growth in employment internationally failing to match the growing labour force, the International Labour Organisation said in its annual report yesterday.

The world labour force is growing by 43m would-be workers a year, it said, but average per capita income fell last year for the fourth year in succession.

Slow growth in the developed market economies was passed on to developing countries through falling demand and lower commodity prices. Except for the swiftly growing East and South-East Asian economies, employment levels could only be sustained by falling wages.

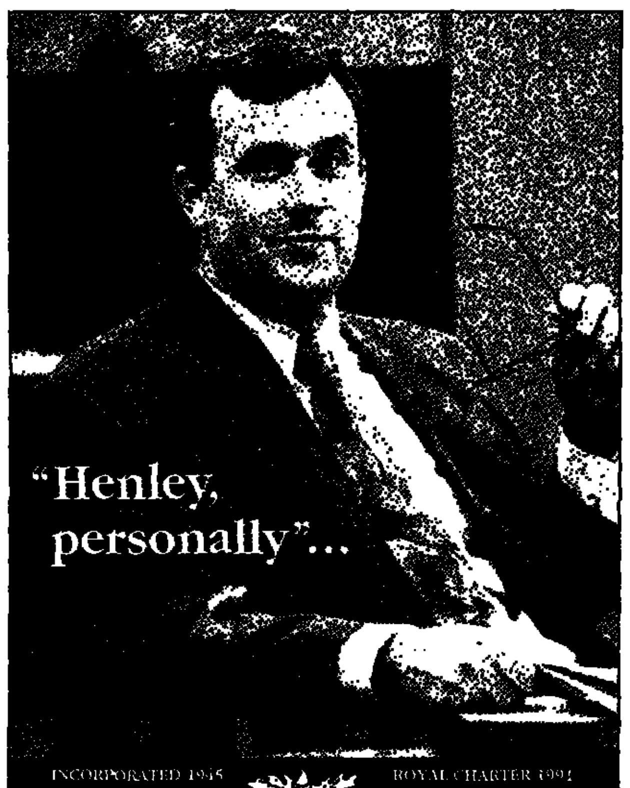
Long-term unemployment had increased sharply across Europe. Some 28.1 per cent of unemployed people in the UK had been without jobs for more than a year. In Ireland the percentage is 60.3, in Germany 45.5 and in France 38.7. This contrasts markedly with Sweden (4.4) and Finland (9.1).

Employment conditions, said the ILO, would continue to be determined by two important characteristics: economic globalisation, allowing capital to seek cheap and productive labour anywhere in the world, and liberalisation affecting most of the OECD economies and many former communist bloc countries.

"For millions of workers around the globe, employment prospects will, at best, remain uncertain for years to come".

● The ILO is raising concerns about the number of deaths among workers using pesticides and agricultural chemicals, particularly in developing countries.

The report said an estimated 4m third world workers showed signs of pesticide poisoning. Some 99 per cent of deaths caused by agro-chemicals occurred in developing countries which used only 20 per cent of the world's pesticides, herbicides and fertilisers. Disasters such as at Bhopal tended to obscure the damage caused by daily handling of chemicals.



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BUILDING PEOPLE - BUILDING BUSINESS

Bangladeshi PM under pressure

Dhaka business halted by strike

By Stefan Wagstyl, recently in Dhaka

Dhaka, the Bangladeshi capital, was brought to a halt yesterday by the second general strike in a month called by opposition parties in an effort to put pressure on the government of Mrs Khaleda Zia, the prime minister.

The parties are calling for an early general election under a caretaker government well before Mrs Zia's term expires in 1996. They want to take advantage of what they see as waning support for the ruling Bangladesh National party, which fared badly in municipal elections last month in Dhaka and Chittagong, the second city.

Mrs Zia, widow of the murdered former president, General Zia ur Rahman, shows no sign of acceding to demands of the opposition – the Awami League, headed by Sheikh Hasina, daughter of Sheikh Mujib ur Rahman, Bangladesh's independence leader, and the Jatiya party of the former president and military dictator, General Hossain Ershad, who was overthrown in 1990 and is now in jail on corruption charges.

Diplomats say much Bangladeshi politics consists of feuds between Mrs Zia, Sheikh Hasina and Gen Ershad's followers in which policy differences are unimportant.

Nevertheless, the recent council elections showed some voter opposition to Mrs Zia's economic policies – especially a World Bank-endorsed liberalisation programme which includes plans for cuts in state-owned industries.

Opposition parties claim that, because the government was defeated in the council polls, the Bangladesh National party will try to rig the general election. They argue that the fact that the 1990 poll won by Mrs Zia was fought under a caretaker government is a useful precedent. A senior aide of Sheikh Hasina argues that caretaker governments are a good way of ensuring fairness and stability in a young democracy.

Businessmen fear that the strikes are already disrupting trade and undermining efforts to promote the country among foreign investors. While Bangladesh receives large amounts of foreign aid – commitments of about $2.2bn (£1.5bn) a year – it gets very little private investment.

Mr Mahbub Jamil, president of the Foreign Investors' Chamber of Commerce and Industry, says: "We are still concerned about basic things such as law and order and government stability, so how can we hope to attract investment?"

Unfortunately for the government, the recent spate of unrest has coincided with two events which might have generated positive international publicity – Mrs Zia's economic mission to Japan, the largest aid donor, in late March, and the laying of the foundation stone in early April for a $700m bridge across the Jamuna river in central Bangladesh, the country's largest ever investment.

Li under fire over nuclear tests

Premier Li Peng of China experienced the first open protest of his tour of Central Asia yesterday, when activists in Kazakhstan attacked China's nuclear tests near the region's border, Reuter reports from Alma Ata.

Earlier, Mr Li had signed an historic accord delineating the 1,700km border between China and Kazakhstan. He also granted the former Soviet republic a Yn50m ($5.75m) credit.

In another development, a Chinese spokesman said that Kazakh President Nursultan Nazarbayev had agreed to curb the activities of groups in Kazakhstan working for the independence for China's north-western Xinjiang region.

About 150 anti-nuclear activists voted to send an open letter to Mr Li saying nuclear tests since 1963 in Xinjiang had "tortured" the earth and were affecting people in Kazakhstan. Xinjiang's Lop Nur, where the last nuclear blast was in 1993, is a few hundred kilometres from the Kazakh border.

COMPANY NOTICES

ROBECO GROUP

ROBECO N.V.

(investment company with a variable capital)

Further to the announcement published in The Times and The Financial Times on 22 April 1994 concerning the Cash Dividend payable 29 April 1994, the rate of exchange for the payment of this dividend on both Robeco N.V. Ordinary Shares of Fls 10 (at Fls 3.52) and Sub-Shares registered in the name of National Provincial Bank (Nominees) Limited (at Fls 0.352) is Fls 2.8295 = £1.00.

UNITED KINGDOM RESIDENTS

The gross dividend is £1.24403605 per Ordinary Share of Fls 10 (Coupon No.92) and is subject to the following deductions:-

15% Netherlands Tax - £0.18660541 per Share
5% United Kingdom Tax - £0.06220180 per Share
Net Payment - £0.99522884 per Share

NON RESIDENTS OF THE UNITED KINGDOM

Where 25% Netherlands Tax is applicable, the following deductions apply:-

25% Netherlands Tax - £0.31100901 per Share
20% UK Tax on Net Dividend (when applicable) - £0.18660541 per Share
Net Payment - £0.74642163 per Share

Dividend entitlement on the Sub-Shares will be paid at one tenth of the above amounts, less M.N. Commission of £0.00155505 per Sub-Share.

Where 15% Netherlands Tax is applicable the calculations are as for United Kingdom Residents, but relief from United Kingdom Tax is immediately obtained provided that the appropriate Inland Revenue Affidavit is lodged with the claim.

ROLINCO N.V.

(investment company with a variable capital)

Further to the announcement published in The Times and The Financial Times on 22 April 1994 concerning the Cash Dividend payable 29 April 1994, the rate of exchange for the payment of this dividend on both Rolinco N.V. Ordinary Shares of Fls 10 (at Fls 2.48) and Sub-Shares registered in the name of National Provincial Bank (Nominees) Limited (at Fls 0.248) is Fls 2.8295 = £1.00.

UNITED KINGDOM RESIDENTS

The gross dividend is £0.87647994 per Ordinary Share of Fls 10 (Talon) and is subject to the following deductions:-

15% Netherlands Tax - £0.13147199 per Share
5% United Kingdom Tax - £0.04382400 per Share
Net Payment - £0.70118395 per Share

NON RESIDENTS OF THE UNITED KINGDOM

Where 25% Netherlands Tax is applicable, the following deductions apply:-

25% Netherlands Tax - £0.21911999 per Share
20% UK Tax on Net Dividend (when applicable) - £0.13147199 per Share
Net Payment - £0.52588796 per Share

Dividend entitlement on the Sub-Shares will be paid at one tenth of the above amounts, less M.N. Commission of £0.00109560 per Sub-Share.

Where 15% Netherlands Tax is applicable the calculations are as for United Kingdom Residents, but relief from United Kingdom Tax is immediately obtained provided that the appropriate Inland Revenue Affidavit is lodged with the claim.

هكذا من الاصل

NEWS: SOUTH AFRICA VOTES

Shares and rand rise to occasion

By Mark Suzman in Johannesburg

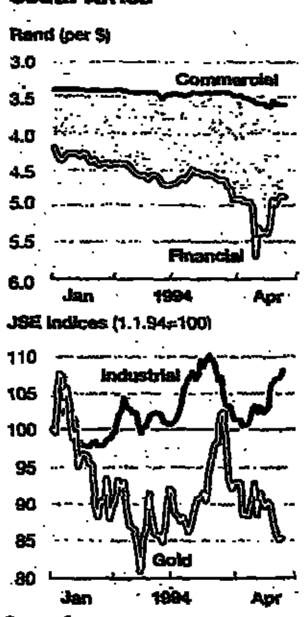
Capping a volatile run-up to South Africa's first all-race elections, which has at various times seen the Johannesburg stock exchange hit new highs and the currency crash to record lows, the markets reacted with palpable relief to the start of voting as the industrial index closed 226 points up at a new all-time high of 6,257, a rise of nearly 4 per cent on the day.

In a wave of across-the-board buying, the market shrugged off news of the rash of bombings round the country, and a bomb threat to the exchange itself, as some blue-chip shares rose as much as 10 per cent. The gold index, which has been under pressure from a weaker bullion price, rose 60 points to 1,906, while the overall index closed at 5,240, a rise of 172 points.

The financial rand, the currency used for transactions by non-residents and the best barometer of foreign sentiment, also had a good day, closing at R4.68 to the dollar, 5 per cent up on Monday and nearly 20 per cent up on the record low of R5.71 reached only three weeks ag – after the initial failure of talks to bring Chief Mangosuthu Buthelezi's Inkatha Freedom party into the election.

The commercial rand, the trading currency, strengthened to R3.58 from R3.614, while long bond yields dipped further to 12.69 per cent from a recent high of 13.39 per cent reached after the summit failure.

There had been concern among dealers that news of bomb blasts in Johannesburg and the nearby town of Germiston might cause jittery foreign investors to sell their holdings, but when it was clear that no one was panicking both local and international buyers started looking around for bargains. "The market seems to have decided that the election was going to take place whatever happened, so people who were a little under-invested wanted to get on board," said Mr Richard Jesse of stockbroker Martin and Co.



Source: Datastream

The business community seems to have already discounted the possibility of right-wing violence, regarding unrest as inevitable but unlikely to have a serious bearing on political or economic events. Despite the upbeat mood, analysts agree that the market is still largely driven by political factors, and will continue to be jumpy until the final results are known and business can begin to come to terms with the economic policies of the new government.

"The key phrase is still cautious optimism," said Mr Tony Twine, an economist at consultant Econometrix. He said business was relieved to have reached the election, but will wait to see "the new set of rules" and who the main players will be.

Soweto's elderly finally come of age

By Michael Holman and Patti Waldmeir in Soweto

Mrs Lena Tshabalala, 85, voted for the first time yesterday.

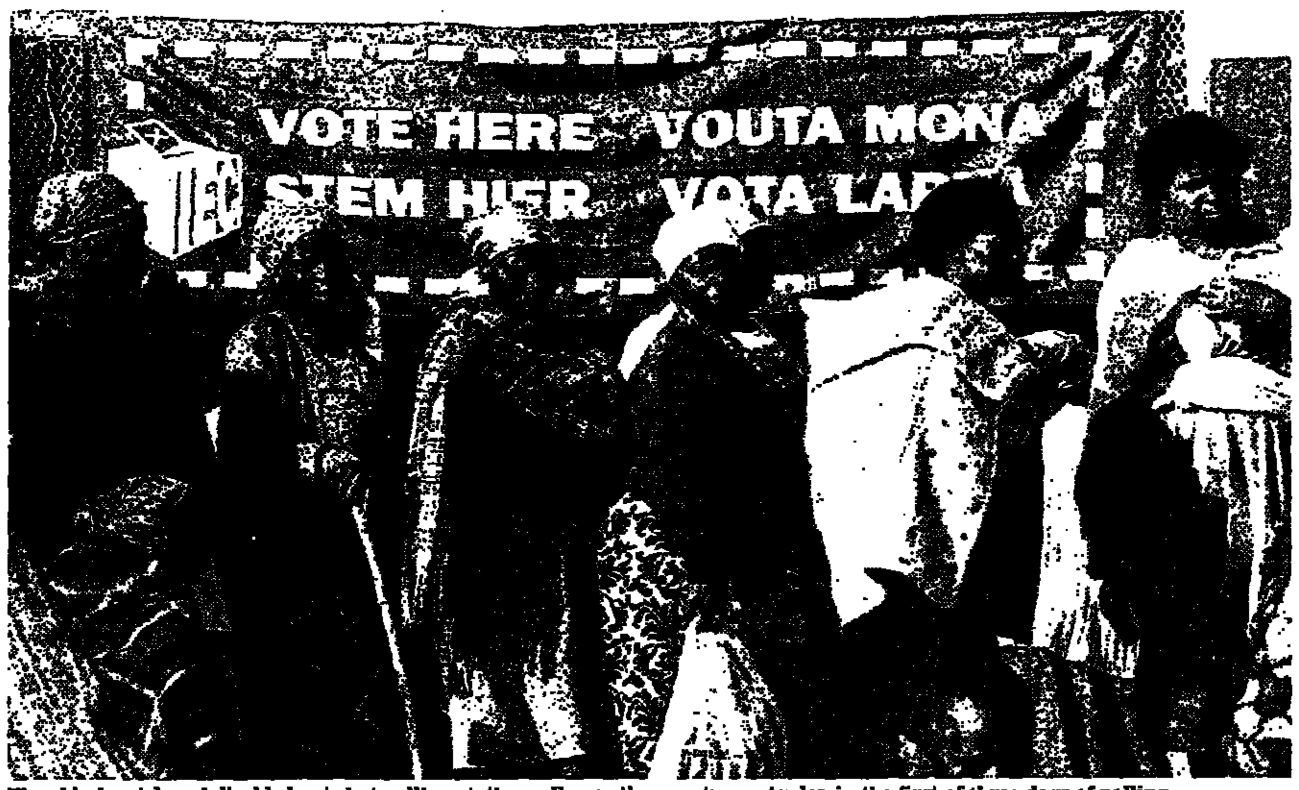
Nearly 350 years after European settlers landed in the Cape, 72 years after the founding of the African National Congress, 46 years after the National party took power, and nearly five years after Mr Nelson Mandela walked to freedom, black South Africans by the hundreds of thousands went to the polls to choose the party that would govern them.

Mrs Tshabalala, seated on the grassy green verge at the entrance to the Soweto Home for the Aged, had no doubt as to where the credit for this historic day lay.

"First, Jesus," she said. "Second, Nelson Mandela."

Did outgoing President F W de Klerk deserve any credit? In a tone of steely Christian charity, Mrs Tshabalala delivered her judgment. "We shall pray for Mr de Klerk." Fellow voter Mrs Monica Hancock concurred: "It wasn't him. It was that poor old man who suffered in jail for so many years."

Behind them stretched a queue whose dignity transcended their afflictions. Arthritic and crippled, elderly and infirm, many wrapped in blankets and wearing bedroom slippers, hundreds waited to cast their "special votes" in South Africa's first all-race elections. They stood hunched over canes, obviously suffering from the long delays which had already kept them standing in the sun for several hours. The Independent Electoral Commission, charged with running the elections, appeared to have made few concessions to the fact that all the voters for yesterday's polling were either elderly, infirm, handicapped or heavily pregnant.



The elderly, sick and disabled voted at polling stations all over the country yesterday in the first of three days of polling Reuter

Only a handful of chairs, no water or first aid facilities were provided.

One old woman, close to tears with the strain of standing, pleaded with a white woman journalist to vote on her behalf.

"I'm so tired. Take my *dompas*," she said, holding out the hated "passbook" which today serves as an identity card for voting, but was used to keep blacks out of cities in the bad old days of apartheid. "Do it for me."

Several hundred yards further back in the queue, the complaints were vociferous. "Nothing has been done. They're not doing their job," said one woman forcefully, as the queue seemed never to advance toward the polls. Polling was due to finish at the Soweto home at 2pm, but by 11am only a fraction of the queue had voted.

Elsewhere in Soweto were countless similar queues, outside primary schools, hospitals and old age homes, waiting under blue skies on a crisp autumn day.

At Baragwanath Hospital, the massive public hospital which serves Soweto's 3m people, queues of patients in hospital gowns and nurses in uniform also waited their turn to vote.

But electoral officials said they would probably have to abandon plans to carry ballot boxes from bed to bed, to allow critically ill patients to vote.

They simply hadn't got the staff.

Back at the Soweto Home for the Aged, Monica Hancock spoke for many.

"We never thought this day would come. It's a miracle," she said.

Expatriates join in creating real homeland

By Our Foreign Staff

Outside their embassy in Trafalgar Square, the queue of South Africans stretched around the block. Their wait to enter the polling booths was lightened by cheers and chanting as anti-apartheid luminaries arrived, and by a dose of spring sunshine which would not have been felt amiss in the Cape.

The line, one of dozens in cities around the world yesterday, comprised visitors to London and expatriates. The all-race poll was the final step in eradicating that bleak and previously numerous third category: no one needed any longer to call themselves exiles.

Although the embassy was only one of seven polling stations in the UK, nearly 8,000 voters were thought to have passed through its doors alone.

One of their number was Archbishop Trevor Huddleston, president of the Anti-Apartheid Movement, who pronounced the election "a miracle – I truly believe it has been miraculous."

Afterwards, in an embassy library with walls bearing the coats of arms of colonists Dutch and British, and shelves of bound records of the white parliament since union in 1910, the 80-year-old archbishop said he would "never ever forgive the evil of apartheid".

While branding as "traitors" those whites who opposed change, he said a new administration, led by Mr Nelson Mandela's African National Congress, for which he had voted, "must be a government of all South Africans."

The first South African to cast a vote yesterday, in Wellington, New Zealand, was Ms Nomaza Paintin, a niece of Mr Mandela. South Africans form one of the largest immigrant groups in New Zealand. There was an upsurge of last-minute interest among the South African community in Australia, which at some 60,000 ranks alongside that of the UK. Local newspapers there and in other countries had run advertisements on behalf of the Independent Electoral Commission publicising the poll.

The 700 or so South Africans in Hong Kong turned out in such force that the consulate ran out of ballot papers. Among those who managed to vote was Ms Elizabeth Dikgale, a domestic helper who is the only Zulu resident in the colony. "South Africa is a golden country, and now we can get back to golden times," she said.

The 20,000 or so Jewish South Africans who have emigrated to Israel find themselves caught between two peace processes, each of which has taken a heavy toll in violence. But as one in the long queue to vote at Tel Aviv Show Grounds put it: "If the whites and blacks in South Africa can get it together, we should be able to do it here too."

Pockets of South Africans elsewhere in Africa were also able to vote, even though full diplomatic relations with much of the continent do not yet exist.

The polling station for Kenya was a sports club in the outskirts of Nairobi where Mrs Nomtha Nkolombe, a 62-year-old physiotherapist who left Cape Town 30 years ago, said: "It is an opportunity both my parents missed."

In New York, two polling stations were set up in tents on a lawn outside the United Nations building. One white voter maintained: "Every South African I know will be voting today. This is one hell of a vote."

That much is indisputable. It was taking two to three hours in the Trafalgar Square queue yesterday to get to vote. Some, however, had been waiting all their lives.

By Gordon Cramb in London, Nikki Tait in Sydney, Simon Holberton in Hong Kong, David Horovitz in Tel Aviv, Leslie Crawford in Nairobi and Richard Tomkins in New York

BANKING IN GERMANY

Experiences - Perspectives - Strategies

CONFERENCE HIGHLIGHTS
- Capital Markets Supervision
- Banking Supervisory Standards
- Tax Requirements
- Legal Framework
- Real Estate
- Staff Recruitment

SPECIAL EVENTS
- Guided sightseeing tour of the City of Frankfurt with special focus on the banking district
- Reception in the imperial chamber of the historical town hall "Römer"
- **Dinner with Guest Speaker Ernst Welteke, Minister of Finance of the State of Hesse**

OUTSTANDING KEY CONTRIBUTIONS FROM
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- Association of Foreign Banks in Germany, Frankfurt/Main
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- Cleary, Gottlieb, Steen & Hamilton, Frankfurt/Main
- DTZ Zadelhoff & Partner, Frankfurt/Main
- EC - Commission, Brussels, Belgium
- Federal Banking Supervisory Office, Berlin
- J.P. Morgan GmbH, Frankfurt/Main
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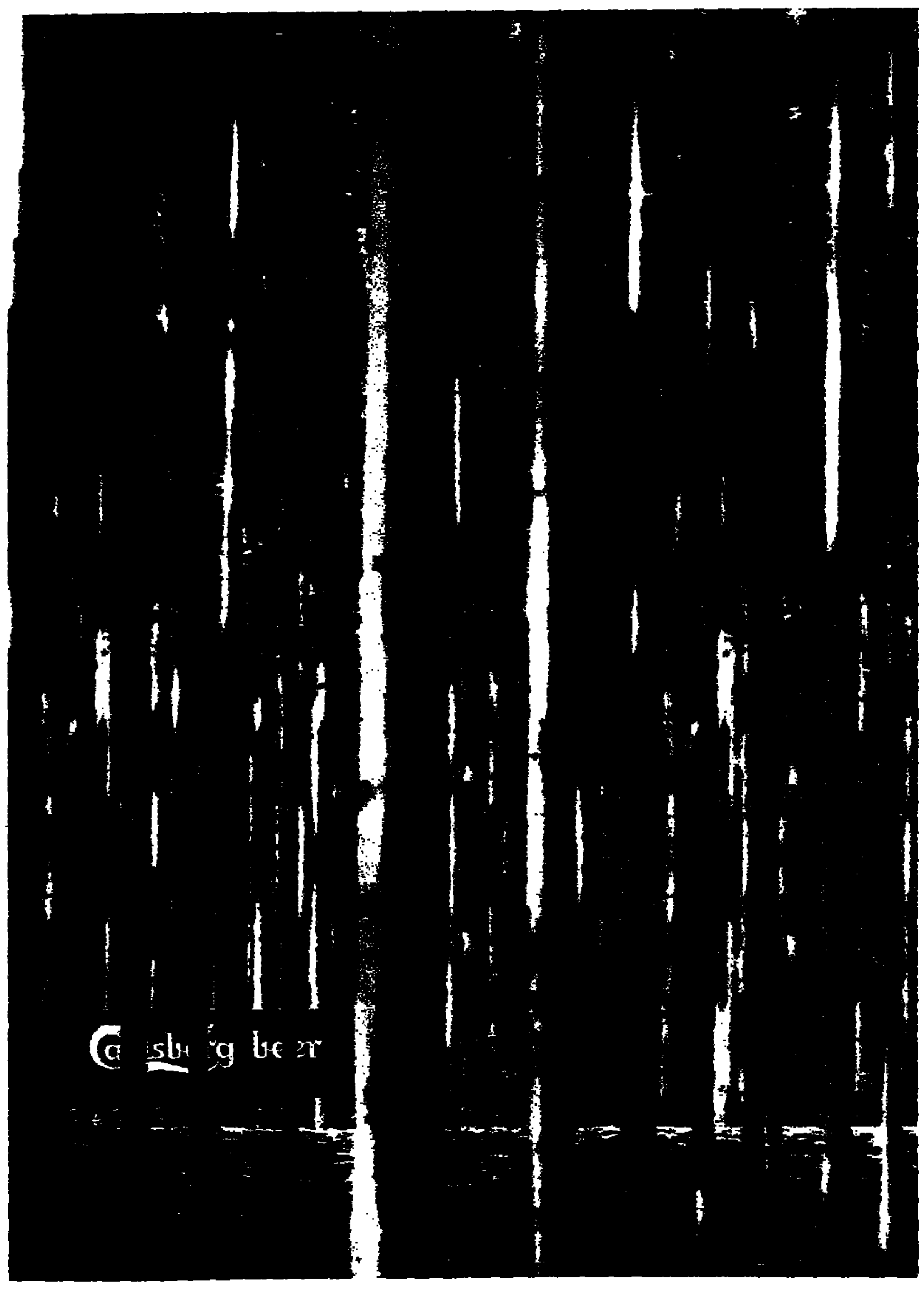
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Last quark may have been found

Physicists have found evidence of the existence of the top quark, the last of 12 subatomic building blocks believed to make up all of matter, the New York Times said yesterday, Reuter reports from New York.

The newspaper said that, after nearly two decades of searching, an international team of 439 scientists at the *Fermi National Accelerator Laboratory* in Batavia, Illinois, was due to announce its findings.

If confirmed, the newspaper said, the discovery would be a big milestone for modern physics because it would complete the experimental proof of a theory known as the Standard Model, which defines the modern understanding of the atom and its structure.

"The exciting thing is that this is the final piece of matter as we know it, as predicted by cosmology and the Standard Model of particle physics," Dr David Schramm, a theoretical physicist at the University of Chicago, was quoted as saying.

If the top quark could not be found, the newspaper said, the Standard Model would collapse, forcing scientists to rethink three decades of work in which governments around the world had invested billions of dollars.

Matter is made of atoms but, nearly a century ago, physicists discovered that atoms, long considered to be the smallest units of matter, were composed of smaller, subatomic particles such as *protons and neutrons. These particles* later showed signs of being made of smaller building blocks.

A unifying theory was developed by Dr Murray Gell-Mann, a physicist at the California Institute of Technology. He sought to explain the structure of subatomic particles in terms of new units he called quarks.

He theorised that there were six different kinds of quarks and that the quark family was parallel to a six-member family of lighter particles known as leptons. Various combina*tions of these 12 particles are thought* to make up all matter.

Five of the six quarks were eventually found, but the sixth remained elusive for nearly two decades.

UK calls for aid shift to private sector

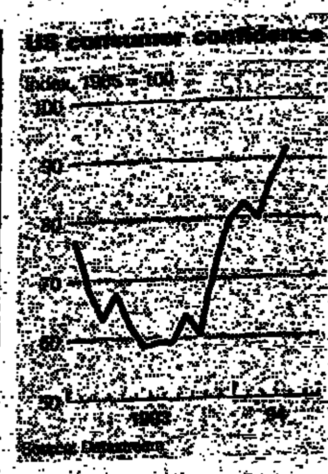
By Peter Norman
in Washington

Britain *is to push for* a restructuring of the World Bank's activities to give a greater role to the International Finance Corporation, the World Bank affiliate that provides finance for the private sector in developing countries.

Mr Kenneth Clarke, UK chancellor, yesterday hinted Britain wanted to discuss transferring resources from the bank to the IFC to reflect the growing importance of private-sector finance in developing nations. "Over time, the relative balance between bank lending and IFC investments will inevitably alter, with IFC growing faster than the bank. We *must explore* ways of expanding IFC's activities without further early calls on shareholder resources," he told the development committee of the International Monetary Fund and World Bank.

He is concerned that for every $19 provided for development by the World Bank, the IFC invests only $1. Britain believes the IFC's activities need to be strengthened to build on its work of providing support for private-sector investment, financial institutions and capital markets and the private provision of infrastructure and services in developing nations.

Mr Lloyd Bentsen, US treasury secretary, proposed a "development committee task force" to review the role of the *World Bank and other multi*lateral development banks. More support should be given to the private sector, with better analysis of the social impact of development policies and operations, and greater involvement of development bank personnel in the countries being helped.



Consumer confidence at high

By Michael Prowse
in Washington

US consumer confidence rose to its highest level in nearly four years this *month, indicat*ing economic growth remains robust. Separate figures showed little upward pressure on wages despite the strong *recovery.*

The Conference Board said its index of confidence rose five points this month to 91.7, a 36 per cent increase from April last year.

Confidence is running at levels "which have historically *signalled* a *strong economy,*" said Mr Fabian Linden for the board. The rise in confidence from March mainly reflected more positive assessments of economic conditions; consumers were slightly more optimistic about economic conditions over the next few months.

Confidence varies regionally, with the strongest gains in the midwest, southern and mountain states. Confidence remains relatively subdued on the east and west coasts.

Labour Department figures yesterday showed little evidence of upward pressure on wages, despite rapid economic growth. The employment cost index, the broadest measure of wages and fringe benefits, rose 0.7 per cent in the first quarter *and 3.2 in the* year to *March*, against gains of 0.8 per cent in the fourth quarter and 3.5 in the year to December.

The growth of benefit pay*ments has slowed sharply* since the late 1980s but still outpaces wage and salary rises.

Nafta partners set up swap facility

By George Graham
in Washington

The US, Canada and Mexico agreed yesterday to set up a permanent $8.8bn (£5.9bn) swap arrangement to help cushion sharp fluctuations in *the foreign* exchange markets.

Officials from all three countries – the partners in the North American Free Trade Agreement – said they did not anticipate drawing on the facility in the near future. However, they said they had decided to set up the procedures so as to have the money available in case of "significant turbulence".

"Its purpose is to promote *orderly exchange markets,*" said Mr Lloyd Bentsen, US treasury secretary.

The new arrangement will combine a long-standing $2bn *reciprocal US-Canada credit* line with the $6bn temporary credit established for Mexico by the US last month to guard against any sharp drop in the peso after the assassination of Mr Luis Donaldo Colosio, the ruling party's candidate for the presidency.

It will also include a Canada-Mexico credit line, increased yesterday from C$200m (£98m) to C$1bn (£486m).

Despite the volatility of the financial markets after the assassination, no call has been made on the swap *facility* over the last month. Officials said none of the swap lines had been drawn on since 1988.

"I don't expect it to be drawn *on more, but it's something* that you put in place, in the event [of] very volatile markets," said Mr Gordon Thiessen, Bank of Canada governor.

Mr Bentsen said the formalisation of the arrangement would make it easier to confront any future instability in the currency markets, such as that which followed Mr Colosio's death.

"This means I won't have to stay up as late as I did that night," Mr Bentsen said.

Mr Pedro Aspe, Mexico's finance minister, said that the Mexican government had responded to volatility in the financial markets after the assassination by increasing interest rates, depreciating the exchange rate and using some of its reserves.

"What we have seen in the *markets*, in the last two weeks, is that this has been the right policy and the markets have returned to normal," Mr Aspe said.

BEARING ARMS: President Bill Clinton holds a Colt AR-15 rifle to promote a proposed US ban on assault weapons Picture: AP

Mexico anti-crime drive

By Damian Fraser
in Mexico City

The Mexican government has set up a commission for public security in an effort to tackle the growing wave of organised *crime in the country.*

President Carlos Salinas has named Mr Arsenio Farell, labour minister over the past decade, to head the commission. He will co-ordinate federal and state police, and work with the interior ministry and the secretary of defence.

This follows the kidnapping *of a prominent Mexican busi*nessmen on Monday. Mr Angel Losada Moreno, vice-chairman of Grupo Gigante, Mexico's second largest supermarket chain, *was seized from his car.*

The Mexican press yesterday published extracts from a letter by the kidnappers of Mr Alfredo Harp Helú, president of Banamex-Accival, Mexico's largest bank, who was seized last month. The letter said a ransom of less than $100m was demanded. The kidnappers *accused the bank's principal* directors of trying to sacrifice their partner by not paying.

The commission is likely to try to encourage police depart*ments to deal with the perva*sive federal and state corruption. Kidnappers and drug organisations in Mexico generally enjoy protection from police who are in their pay, and are often themselves made up of ex-policemen.

Stable currencies put on IMF agenda

By Peter Norman

Continental European finance ministers have put greater exchange rate stability back on the international monetary agenda.

But any idea of creating a new world monetary system or extending Europe's experience with the exchange rate mechanism to other countries stands *virtually no chance of accep*tance by the biggest industrial nations.

Following the meeting this week of the policy-making *interim committee of the Inter*national Monetary Fund, Mr Philippe Maystadt, Belgian finance minister and committee chairman, disclosed that the Fund's executive board had been asked to study "possible ways to introduce a greater degree of discipline in the present exchange rate system".

The Fund board was asked to report back to the committee by its next meeting in Madrid in October.

Mr Michel Camdessus, IMF *managing director*, made clear he believed there was little chance of a new system to stabilise exchange rates and that the problem was better *addressed through strength*ened co-ordination of economic policies.

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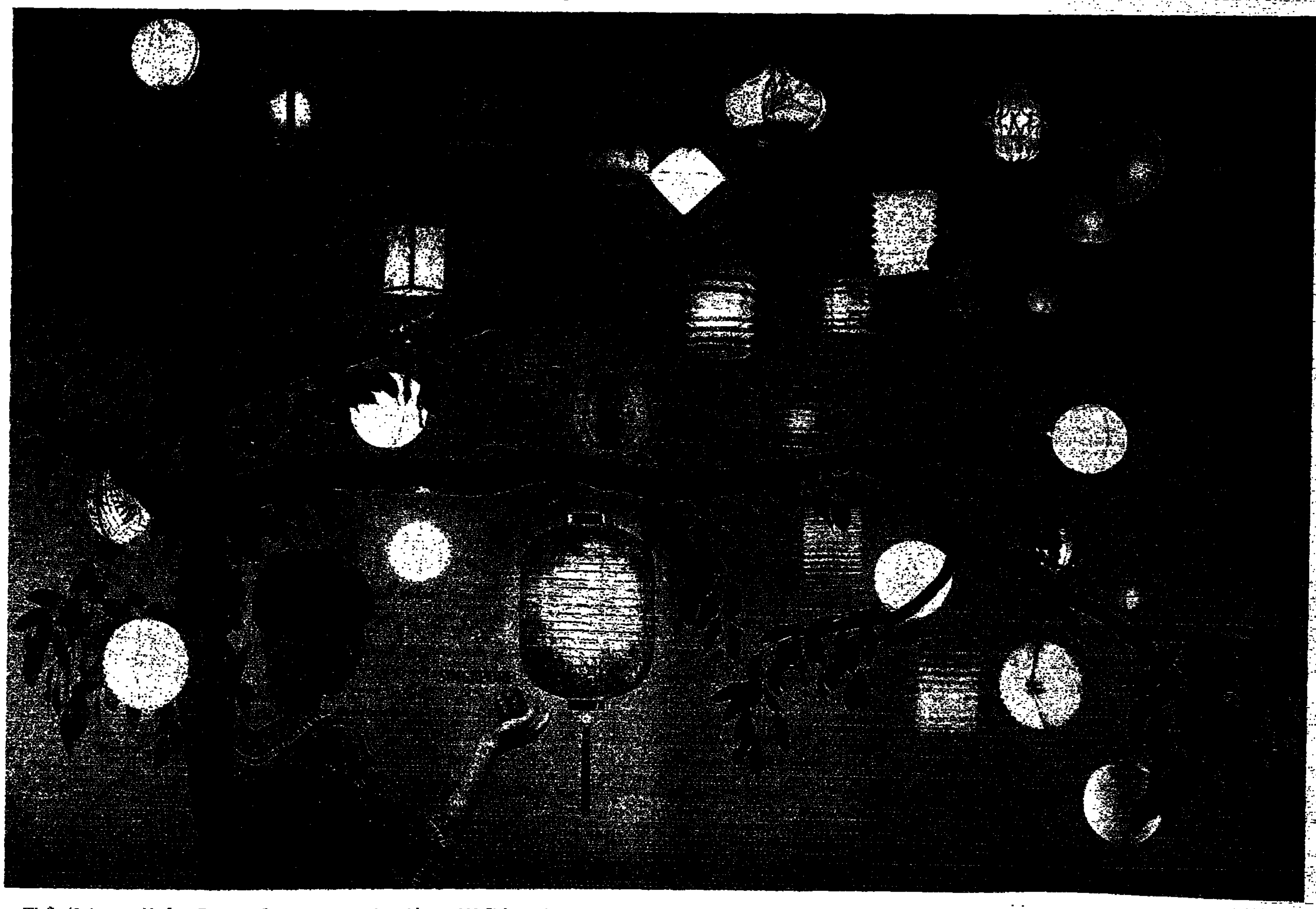

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NEWS: WORLD TRADE

US, Canada edge towards farm curbs

By Nancy Dunne in Washington

The US and Canada, pushed by their farm lobbies, will soon begin negotiations that could undo, at least in the short term, much of the agriculture trade liberalisation so painfully negotiated under the North American Free Trade Agreement and the General Agreement on Tariffs and Trade.

Even as the trade ministers in Marrakesh were signing the Uruguay Round deal, US and Canadian negotiators were in another room negotiating deals to protect their farmers.

Mr Mike Espy, the US agriculture secretary, said talks in Marrakesh broke down over Canada's refusal to increase US market access for dairy, poultry and eggs, and its insistence on maintaining wheat exports at current levels.

Unable to reach agreement, the US on Friday said it would act in 90 days to limit grain imports under Article 28 of Gatt.

Canada has responded by threatening reprisals against apples, bourbon, bread, chicken, rice, tomato products and wine.

Besides Canada's restrictions on dairy, poultry and eggs, the US is complaining about Canadian imports of peanuts, sugar and sugar-containing exports.

At the root of the disputes – as has long been the case – is the similarity of farm production in the two neighbouring countries. Neither government is ready to let freer trade take its course.

What could result from the current stand-off is a far-reaching deal across sectors which could limit access to the Canadian market for dairy and poultry while curbing sugar and grain imports to the US.

A deal to change tariffs would have to get US congressional approval.

That ordinarily would be attached to the Uruguay Round implementing legislation, buf the Clinton administration has yet to find the money in the budget to compensate for the lower tariffs agreed in the round.

Furthermore, the administration, which has been forced to act on earlier promises to prairie state senators, is now finding new opposition. Eighteen senators from states producing pasta and poultry have threatened to block adoption of a deal.

To the disgust of its farm lobby, US officials are determined to act on Canada's grain imports under Gatt's multilateral rules, instead of acting unilaterally under a US law which allows the US to impose tariffs or quotas if imports are having a negative impact on the US farm programme.

Mr Mace Thornton, spokesman for the American Farm Bureau, said the US has repeatedly opposed the use of Article 28 – by the EU for example – and threatened retaliation if it were used.

For the US to use it and at the same time withdraw tariff reduction commitments negotiated under Nafta would "set a bad precedent".

The Farm Bureau, the most ardent supporter of the Uruguay Round, wants the administration to delay action until completion of a study by the International Trade Commission on the effects of imports on the US price support programme.

If this finds negative impact, it wants action under US law.

The US could then avoid paying compensation, but would risk a full-blown trade war with its biggest trading partner.

Espy: blamed stand-off on Canadian stance on market access

US urged to boost textile exports

By Nancy Dunne in Washington

The president of the US textile industry association has called on industry leaders to accept the reality of international trade and focus on export growth, even in developing countries which produce the goods flooding into the US market.

Mr Henry Truslow III, president of the American Textile Manufacturers' Institute, told an industry conference in Florida exports cannot counter the damage caused by phasing out of textile and apparel quotas, but "we have – and will have – some extraordinary opportunities to do business in other countries."

Textiles companies have been among the most protectionist of US sectors. Since the debate over the North American Free Trade Agreement, the industry has been split over proposals to favour export strategies, made possible by large productivity gains achieved in the past decade.

Mr Truslow called on the industry to "commit to an export strategy, squeeze every penny out of costs, ensure that the industry has access to raw materials at world prices, encourage the [US] government to make foreign markets an ongoing high priority, and promote tax initiatives, such as a value-added tax which benefits exporters."

Sen Ernest Hollings, a South Carolina Democrat and an industry supporter, says the industry now "has its eye on the hole not the doughnut." In the last 12 years, the US has lost more than 500,000 textile jobs and has a $29bn (£19.5bn) trade deficit in textiles and apparel.

Exports have been growing, but slowly – from $9.4bn in 1992 to $10.3bn in 1993. They dropped by 0.8 percent in the first two months of 1994, mostly due to recession.

The manufacturers' institute has yet to decide whether it will support the Uruguay Round global trade pact.

GE, Skoda in power co-operation

By Andrew Baxter

General Electric of the US and Skoda, the Czech Republic's leading industrial company, have announced a 10-year agreement of "co-operation and strategic association" in power generation projects.

The deal, signed at Plzen, is a coup for GE, which has negotiated the agreement in the past few weeks in spite of long, intermittent talks between the Czech company and Siemens of Germany.

Mr Ronald Pressman, chief executive of GE Power Systems Europe, said Skoda would be supplying mainly steam turbine components to GE.

The US company expects to place about $5m-$10m (£3.35m-£6.7m) in orders with Skoda in the next two years, with commitments expected to increase after that.

GE will supply gas turbines and combined-cycle engineering for Skoda-designed power plants in eastern Europe, the former Soviet Union, the Middle East and Vietnam.

Both companies have also agreed to explore opportunities for co-operation in individual power plant construction projects elsewhere.

Skoda has been wooed by westerners since the opening of the old Comecon in the early 1990s. GE had also talked with the company at that stage, said Mr Pressman. Skoda reached agreement in principle on a broad co-operation in power with Siemens in 1991.

Talks on a final agreement ended in November 1992 but they were resumed in March last year, focussing only on turbine manufacturing.

A preliminary contract by Siemens and Skoda was signed in July but final agreement has not been reached. Siemens said yesterday that talks continued, but the implications of the GE deal remained to be seen.

Western companies have been keen to marry their strengths in gas turbines to Skoda's expertise in steam turbines.

Skoda's low-cost manufacturing base has also been attractive.

China 'to relax rules' on electricity project returns

By Louise Lucas in Hong Kong

FT Beijing is to relax rulings on returns offered to foreign investors in power projects in China. Unofficial guidelines issued at the start of the year, setting a target of 12 per cent, have been lifted to 15 per cent, said Mr Gordon Wu, Hong Kong's civil engineer turned business tycoon, whose own power plant proposals have been put on ice because of the poor returns on offer.

Speaking at an FT conference on Asian Electricity in Hong Kong yesterday, Mr Wu said Mr Li Peng, China's prime minister, is now suggesting foreign investors be offered no more than 15 to 16 per cent. "So he has relented a little, although by international standards it is still a low return," said Mr Wu.

Bankers have been reporting a delay in power plant project financing deals since the start of this year, when it became clear Beijing was planning strict curbs on rates of return. The introduction of schemes of control, offering staggered returns, was also under consideration.

In December, Beijing pulled a $180m (£121m) financing package put together by Goldman Sachs for an existing power plant in Shandong province. A private placement would have put 30 per cent of the project into foreign hands. Instead, capital is now to be raised on the Hong Kong stock market. It is understood that the level of returns on offer to foreign investors was at least partially behind the decision to scrap the original deal.

Mr Wu added that Beijing was being forced to make a more realistic appraisal of foreign investors' expectations. However, he reckoned 16 per cent to be a fair return, if coupled with a short cut through Beijing red tape.

Also at the conference, Mr Thomas Marshella, managing director of Moody's Investors Service, referred to a World Bank survey which puts the total cost of power development in Asian developing countries in 1995-99 at $277bn, with China and India accounting for three quarters of that.

EU attacked over shipping policy

By Hilary Barnes in Copenhagen

The European Commission is sharply criticised for its shipping policy, in the annual report of the A P Moller group, which operates one of the world's largest merchant fleets.

Moller claims that, because of Commission policies, shipping business and jobs are being exported to the Far East. The Commission, says Moller, "has cast doubt on the right of the liner shipping companies to rationalise their operations and hence for the European companies to operate profitable liner services to Europe."

This refers to a claim by the Commission, in a current dispute with the container-carrying liner shipping companies, that the companies can only offer rates from port to port, not from the point of production of goods to the final destination. The Commission maintains that this practice distorts competition with land-based hauliers.

The liner shipping companies have always offered customers transport, not only from port to port but also from the inland point of production to the inland point of reception.

The Commission is trying to stop this natural service to customers, which is "difficult to understand," says Moller.

"The consequence is that a growing share of this trade, and therefore an increasing number of jobs, [is] being exported to Far Eastern shipping companies," says the Danish group.

Australia telecoms cable project

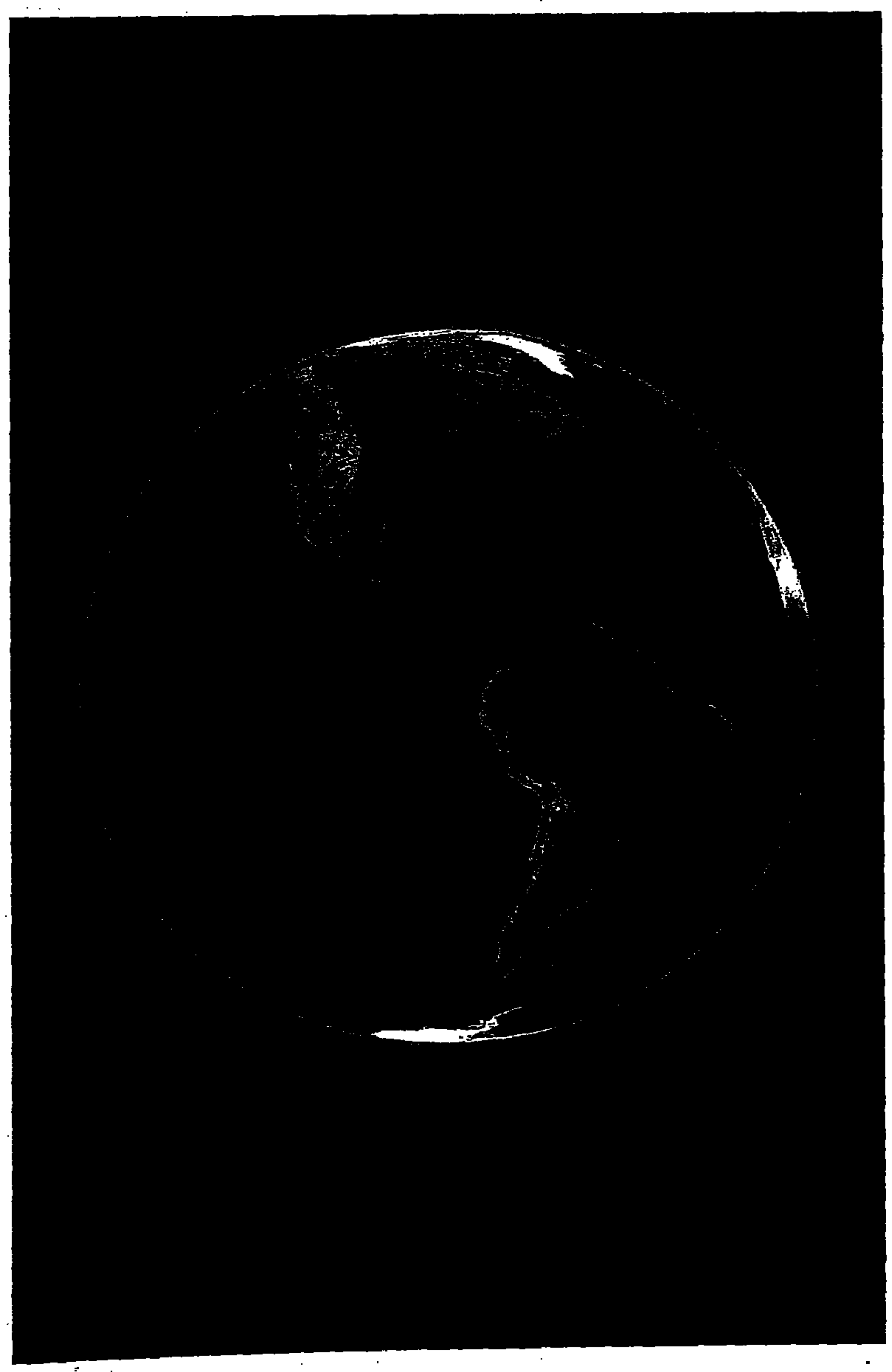
By Nikki Tait in Sydney

Telecom Australia, the state-owned telecommunications group, and Optus, its private sector rival, are joining forces to build an optical fibre telecommunications cable between Western Australia and Indonesia. This, in turn, will provide Australia with access to the proposed Asia-Pacific Cable Network.

The aim is for this link eventually to replace the existing Australia/Indonesia/Singapore analogue coaxial cable, which was commissioned about eight years ago. The new link will have much greater capacity and will use more recent optical amplifier and synchronous digital hierarchy (SDH) technologies.

The project is a three-way co-operation by Telecon, Optus and PT Indosat, the Indonesian carrier. However, only the two Australian companies will fund the A$140m (£68m) cable network, with Telecom providing 69 per cent and Optus the remaining 31 per cent.

The new cable is expected to come into service by the end of 1996. Tenders for the supply of the 2,100-km cable are likely to be sought in July.



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NEWS: UK

Britain to maintain world military rank

By Bernard Gray and James Blitz

Mr Malcolm Rifkind, the UK defence secretary, yesterday said that the breadth and capacity of Britain's armed forces was matched only by that of the United States, Russia and France.

Unveiling the annual defence policy document, Mr Rifkind added that the government intended to maintain Britain's position.

The 'white paper' confirms that fighting forces are to be maintained at around current strength. It also repeated the Ministry of Defence's intention to continue with all of its large weapons procurement programmes.

However, Mr Rifkind came under attack from Conservative rank-and-file MPs for jeopardising front line forces through cutbacks in support staff.

The paper was issued several months earlier than last year, and was not accompanied by the usual statistical details. This prompted the opposition Labour party to claim that the government was postponing large cutbacks and heavy redundancies until after the upcoming local and European elections.

Nor did the document give details of the cutbacks which would come from the current review of costs, called Front Line First.

Mr Rifkind said that the review would not affect the fighting capacity of the armed forces, but that it was looking for efficiency savings from support services. He added that no decisions on cutbacks had yet been taken but that an announcement was likely in late July.

Front Line First is expected to recommend mergers of bases, privatisation of some services and up to 20,000 redundancies among support personnel.

Rosyth naval base, on the east coast of Scotland, could close, and several headquarters could be merged. Vehicles may in future be leased instead of owned and much of the Royal Air Force's maintainance could be handled by private companies.

Tory MPs expressed deep concern yesterday about the effect of impending cuts in Britain's defence budget, despite Mr Rifkind's assurances.

Sir Nicholas Bonsor, the Conservative chairman of the House of Commons defence select committee, said he wanted to see what Front Line First would show, but warned that sweeping cuts in military support staff could reduce front line effectiveness.

The Labour party also attacked the white paper. "This is a whitewash, not a White Paper," said Mr David Clark, Labour's Defence spokesman. "The Tories are running scared on defence."

Employers see no need for extra rate cut

By Philip Coggan, Economics Correspondent

The Confederation of British Industry said yesterday it saw no need for a cut in UK interest rates, despite some weaker-than-expected indicators in its latest quarterly industrial trends survey.

The survey showed that, since January, UK manufacturing output had risen at its fastest rate for five years. But City analysts were disappointed by the survey's findings on waning optimism among manufacturers.

The Confederation of British Industry, the employers' organisation, has often been forthright in calling for interest rate cuts in the past but Sir David Lees, chairman of the CBI's economic affairs committee, said the panel had been unanimous in deciding that the survey did not justify an immediate cut in interest rates.

"I think there's clearly a strong feeling in industry which says that interest rates are probably now pretty near the bottom and what industry really needs, and is beginning to get, is a period of stability in both exchange rates and in interest rates" he said.

Only if the tax increases which took effect this month showed signs of causing the recovery to falter, should the issue of rate cuts be revisited, he said.

The balance of manufacturing companies which said they were more optimistic than four months previously dropped to 13 percentage points in April, from 27 points in January. Large companies (those with more than 5,000 employees) have become more pessimistic over the last four months.

Sir David said he thought the tax increases may have cast a shadow over the optimism indicator.

Nevertheless, some analysts described the optimism figures as disappointing. "Hopes of a very strong and sustainable recovery will be dashed by this survey", said Mr Simon Briscoe, UK economist at S G Warburg Securities.

The survey had some good news on inflation with slightly more companies planning to cut, rather than increase, prices over the next four months. Growth in orders, output and exports is expected to continue.

However, investment intentions remain modest, with only a small balance planning to invest in plant and equipment over the next year. Manufacturing companies are still planning to shed jobs over the next four months.

Pupils at King's School, Canterbury: The number of boarders in the UK has dropped by almost an eighth in two years Picture: Tony Kirk

Foreign boost but schools squeezed

By John Authers

The numbers of boarders in UK schools dropped by 5.2 per cent last year as independent schools continued to be squeezed by the recession.

But heavy marketing in the far east and eastern Europe led to a 10 per cent increase in foreign pupils coming to the UK, to an all-time high of 6,422 (compared with 5,859 last year).

The numbers recruited from continental Europe rose from 1,537 to 1,796, while recruits from the Far East outside Hong Kong increased from 1,140 to 1,261.

Following a fall of 6.2 per cent last year, boarding numbers have now dropped by almost an eighth in two years. However, the Independent Schools Information Service said its figures, out yesterday, heralded a "sooner-than-expected recovery" because the number of day pupils increased by 0.1 per cent.

Total pupil numbers fell by 0.96 per cent, following a drop of 1.5 per cent last year.

The decline was sharpest in boarding preparatory schools. Among boys there was a drop of 13.4 per cent in 10-year-old boarders, from 2,526 to 2,188, while the number of boarding 11-year-olds fell 10.2 per cent to 3,467.

Mr Roy Chapman, headmaster of Malvern College and chairman of the Headmasters' Conference, which represents the largest boys' schools, said: "Boarding schools have to face up to the realities of the marketplace in a way which they've never done before."

The drop in numbers occurred in spite of a sharp fall in school fees inflation, which at an average of 2.6 per cent rose less than national average earnings for the first time since the survey began in 1983.

But Mr Michael Oakley, chairman of the Independent Schools Bursars' Association, predicted that fees inflation might increase to about 4 per cent or 5 per cent next September, as private schools would feel obliged at least to match the 2.9 per cent pay award for teachers in the state sector.

£500,000 in notes stolen from Bank

By Robert Rice, Legal Correspondent

The Bank of England yesterday won its High Court action to recover more than £500,000 stolen by former employees from its banknote destruction depot in Essex, east of London.

Judge Norman Rudd ruled that Mrs Christine Gibson, 44, Mr Kenneth Longman, 34 and Mr Michael Nairne, 39, had systematically stolen cash from the depot between 1988 and 1992.

The court heard that Mrs Gibson had allegedly smuggled thousands of pounds out of the depot by stuffing notes into her underwear.

The judge said the spouses of the three had been fully aware where the money came from. Their explanations for their extravagant lifestyles were "wholly incredible and totally unsupported."

He ordered the Gibsons to return £250,000, the Longmans £150,000 and the Nairnes £110,000. Judgment was suspended for 28 days pending an appeal and the Bank was granted a continuation of asset-freezing orders.

The families, who all come from Loughton, Essex, were also ordered to pay costs estimated at £400,000. The judge said the costs' order against the Longmans and the Nairnes was not to be enforced without leave of the court as they were both on legal aid.

The three former Bank employees may now face criminal prosecution for theft. The Crown Prosecution Service said the decision to prosecute would depend on whether any fresh evidence had emerged.

The three had originally been charged in 1992 with theft together with another former Bank employee Mr Kevin Winwright. The case against Mrs Gibson, Mr Longman and Mr Nairne had been dropped on the grounds that there was insufficient evidence.

Mr Winwright, who admitted three counts of theft totalling £170,000, was jailed for 18 months in January 1993.

During the civil proceeding he gave evidence for the Bank together with two other former employees in return for immunity from further legal action.

Japanese drugs group considering UK site

By Paul Abrahams in Tokyo

The UK has emerged as the favoured site for the first international research centre outside Japan for Takeda, Japan's largest pharmaceuticals group.

The company is sending a team to visit potential sites next month.

"The UK is becoming the centre of the European pharmaceuticals industry," said Dr Masahiko Fujino, general manager of Takeda's discovery research division. "We are looking at other European locations but the UK is most suitable."

The move would be the latest in a series of pharmaceuticals research investments in the UK by Japanese companies. Yamanouchi, another leading drugs group, has a research centre in Oxford, while Fujisawa has a centre in Edinburgh.

Japanese drugs companies have been increasingly attracted to the UK because of the quality and relative cheapness of its scientific research. The decision last year to locate the European Medicines Evaluation Agency in London has also proved an important factor.

Mr Fujino said the visit, organised by the British Embassy in Tokyo, would take in a number of British universities, but he declined to identify them. Takeda had not decided what therapeutic areas the centre would explore, he said, but the front-runner was gastro-intestinal disease.

"A lot of Japanese groups have set up neuroscience discovery operations in the UK, but they have not been particularly successful," said Dr Fujino. The group, the largest pharmaceuticals R&D spender in Japan with a budget in the year to March 31 1993 of Y62bn, concentrates on neurosciences, gastro-intestinal disease, cardiovascular treatments, bone disorders, cancer and antibiotics.

The initial investment would be small, perhaps Y300m, said Dr Fujino, but would later be substantially expanded. In 1988, the company set up European development facilities in Frankfurt to prove the safety and effectiveness of medicines.

Dr Fujino said Takeda might use Takeda Abbott Pharmaceuticals, its Chicago-based joint-venture with Abbott of the US, to set up research activities in the US at a later date.

Stock Exchange targets non-British companies

By Norma Cohen and Richard Gourlay

The London Stock Exchange yesterday launched a seven-point plan to promote the interests of smaller companies and to encourage greater investment in and trading of their shares.

The Exchange also signalled a cultural shift, saying that for the first time it will actively market itself and its services for small companies and for others whose shares it lists.

The Exchange plans to extend its marketing activities outside the UK and in future will actively be encouraging non-UK companies to seek listings in London.

The Exchange has been under pressure to improve facilities for small companies since December 1992 when it announced it would close its Unlisted Securities Market, the mechanism for trading in the shares of the smallest companies. The City Group for Smaller Companies, an interest group of venture capitalists, stockbrokers and corporate financiers, has urged the creation of a separate exchange, under the aegis of the Stock Exchange but with separate management to promote trading in small company shares.

Yesterday, the Exchange stopped well short of endorsing such an exchange. But it announced steps which "will obviate the need for a new exchange," according to Mr Giles Vardey, its director of Markets Development and Marketing. Mr Vardey also conceded that some of the measures would have been necessary anyway because of changes in EC legislation.

The main points are:

- The development of an equivalent of the Stock Exchange "Yellow Book" to set listing requirements for those companies not on the official list whose shares are traded under section 535.2 of the Exchange's current rules.
- Creation of a specialist smaller companies group within the Exchange and of a dedicated marketing team to educate companies about the benefits of the Exchange's markets and to champion "smaller company issues."
- The Exchange has proposed to the FT-SE Actuaries Steering Committee a new index which would draw in those companies now too small to fall into the FT Small Capitalization Stocks Index
- Enhancement to allow prices of less liquid securities to be displayed on screens to encourage more trading in those shares.
- The Exchange will encourage regional brokers to promote investor interest in locally-based company shares and will work with Scottish Enterprise on a pilot scheme to be introduced elsewhere, and
- Creation of a venture capital investment trust sector within FT-SE indices to encourage fund managers to set aside capital for new trusts which qualify for tax relief under the Nov 1993 Budget.

A man leads a horse across the M25 Motorway in a scene from the controversial video

Britain in brief

Big Lloyd's case opens in High Court

Lloyd's underwriters were guilty of "incompetence on a spectacular scale" it was alleged yesterday on the opening day of the UK's biggest ever legal action, brought by loss-making Lloyd's Names.

Mr Geoffrey Vos QC, who is representing 3,095 loss-making Gooda Walker Names, told Mr Justice Phillips that underwriters had "wholly ignored the basic, obvious and accepted principles of the reinsurance market."

The Gooda Names are seeking compensation of some £629m from 71 members' agents who placed them with four syndicates formerly managed by the Gooda Walker agency.

The syndicates specialised in so-called "excess of loss" reinsurance business, covering risks already reinsured by insurance companies and other syndicates in the market.

The underwriters either "didn't know the scale of their likely exposures" or had "wholly ignored it", alleged Mr Vos. Total losses of the four syndicates – 164, 290, 298 and 299 – in seven separate years of account – amount to more than £850m.

The outcome of the case is expected to be a pointer to the prospects of thousands more Names planning similar action.

The case continues.

Racehorse owners fail

Racehorse trainer Vincent O'Brien and fellow shareholders in the kidnapped Derby winner Shergar failed yesterday in a £200,000 High Court damages claim over their failure to recover an insurance pay-out for the loss of the horse.

Mr O'Brien, his wife Jacqueline, John and Susan Magnier, and Robert Sangster's Swettenham Stud, as joint owners of the Coolmore Stud in Co Tipperary, bought three £280,000 shares in Shergar, highly prized as a breeding stallion, when he was syndicated by the Aga Khan in 1981.

The £10m thoroughbred was snatched, probably by the IRA, in February 1983 from Ballymany Stud Farm, Co Kildare. The horse has never been recovered.

Lloyd's insurers refused to pay out under a £200,000 policy covering two thirds of the initial instalments because the horse had been covered only against death, not theft.

£1.2bn EU local aid row

Local authorities across England have banded together to contest government plans to administer £1.19bn of European Union structural funds through the new chain of regional offices controlled by a cabinet committee. The local authorities fear that government policy flies in the face of subsidiarity – the EU principle of taking decisions at the lowest possible level.

They are worried that the Commission in Brussels will delay the money because the government's outline of plans for spending it is not sufficiently detailed. Their protests could lead to a new round of disputes between Brussels and London over the structural funds used to help European regions arrest economic and industrial decline.

Ticket groups self-regulate

Britain's ticket agencies are forming a self-regulatory organisation to curb touting and deal with customer complaints. Executives from some of the country's largest agencies have drawn up a code of practice and launched a new body – the Society of Ticket Agents and Retailers (Star) – which aims to improve the industry's reputation.

Flight delays 'halved' in UK

The average length of flight delays at Britain's major airports has halved in the past four years, according to figures from the Civil Aviation Authority.

The average delay to all flights from Heathrow, Gatwick, Stansted, Luton, Manchester and Birmingham airports in 1993 was 12 minutes. This compared with 27 minutes in 1989, 26 minutes in 1990, 18 minutes in 1991 and 15 minutes in 1992.

BBC channel for Europe

The BBC is close to a deal on launching a 24-hours a day television news and information service to add to its existing channel in Europe. Mr Bob Phillis, the BBC deputy director general told a Voice of the Listener and Viewer conference in London that he hoped the new channel could be launched by the end of this year.

No agreement has yet been signed but Mr Phillis said talks were under way with a number of potential partners.

Dangerous drivers are a video hit

A film featuring police footage of dramatic car chases and examples of reckless driving has become a 'best seller' in Britain's High Street video stores, Steve McGookin writes.

Eight police forces provided footage for the video – Stop Police 2, the sequel to a similar compilation which has sold 300,000 copies – including a motorcyclist in Liverpool who rides through traffic with a 9ft plank strapped to the back of his bike, and a man leading a horse across a motorway.

The video's producers said the videos had a "serious message" with a strong emphasis on road safety but also had some "very amusing scenes".

Although the tapes have been accused by some MPs and senior police officers of glamorising reckless driving, Inspector David Rowland of the Metropolitan Police, who introduces the new video, says the aim is to "improve driving standards by pointing out bad driving."

Hutchison Microtel returns to a very mobile market

Alan Cane on Orange, the personal phone network to rival Vodafone and Cellnet

Hutchison Microtel this week makes its second attempt to carve out a share of the UK mobile telephone market.

Tomorrow it launches Orange, a personal communications network, promising a broad range of services made possible by digital – computer based – transmission. The launch comes just six months after it wrote off £100m in killing off its low-cost Rabbit mobile service.

Orange will be Britain's fourth mobile phone network after Vodafone, the largest, and Cellnet – both of which use analogue transmission – and Mercury One-2-One, which pioneered digital transmission in the UK but is still limited essentially to the London area. It plans to extend to the 30 largest conurbations by 1996.

Hutchison Telecom, owned 65 per cent by Hong Kong-based Hutchison Whampoa, 30 per cent by British Aerospace and five per cent by Barclays Bank, will target the million or so small and medium sized businesses which do not yet use mobile phones.

Orange has become the largest single investment in telecommunications for the Hong Kong group. Mr Hans Snook, group managing director for Hutchison Telecom (UK), said investment to the end of this year, when the service should be available to 70 per cent of the UK population, would be £450m.

Some 900 base stations, filing cabinet sized pieces of equipment to receive and transmit calls, were in place and a further 550 sites had been acquired.

"That is the most lengthy process – carrying out negotiations for the land or property and getting planning permission. It is getting more difficult as time goes by."

Mr Snook said the peak funding requirement, including all capital expenditure, operating expenditure and operational losses would be about £700m. Break-even is planned for 1997. "We could possibly break even by 1996, but in the worst possible case it will be 1998."

Much will depend on the tariff structure, to be announced tomorrow. Mercury One-2-One is widely credited with creating the breakthrough in mobile telephony for domestic users, by offering free local calls in the evenings and at weekends but Mr Snook says Orange will not be following suit.

"I do not see One-2-One as a competitor. It is still a regional operator. It is going to grow but it takes an average of 15 months to acquire, equip and commission a base station site. When I look at where we are now and where I understand One-2-One is, they are about 18 months behind. Our biggest competitor is Vodafone followed by Cellnet," he said.

Mr Snook said his chief aim was to broaden the market: "If there are still four operators in the market by 2000, I would be happy with a 25 per cent share." He thought the market for domestic use would not grow substantially until the end of 1995 or 1996.

Orange handsets double as radio pagers and have screens capable of displaying messages or instructions. Their batteries support more than a hour's continuous conversation. Each handset can support two telephone lines distinguished by different ringing tones and charged separately. Incoming calls can be identified by name or number.

The digital technology used by One-2-One and Orange is likely to dominate mobile telephony in Europe for the foreseeable future. Mr Snook predicts that by 2000, half of all telephone calls will be "wire-free".

عكذا من الاصل

MANAGEMENT

Christopher Lorenz concludes a three-part series on ownership by examining what makes some cross-border purchases easier to handle than others

Nationality still matters

A few weeks before Renault's takeover of Volvo collapsed last December amid a Swedish furore over the deal, an equally sensitive cross-border acquisition sailed through almost unnoticed. Nobel, a Swedish chemicals company, was bought by Akzo of the Netherlands.

At first sight, the contrast seemed to be one of national style. French buyers have gained a reputation for putting national interests first. Unlike Renault's French management, which had taken an arrogant line towards the Swedes, the Dutch took great pains to consider Swedish interests, in spite of the fact that Nobel was in a far worse financial state than Volvo. Akzo not only agreed to run the merged group's key coatings interests from Sweden, but also undertook to continue Swedish research and development.

Akzo's chairman said he did not underestimate the difficulties of merging the two cultures, but added prophetically that there would probably be fewer difficulties between the Swedes and Dutch than between, say, Swedes and French.

But nationality is not the only contrasting factor between the two cases. There are three other fundamental, but less obvious, differences.

First, Akzo's operations were more complementary with Nobel's than Renault's were with Volvo's – there was much less overlap, and therefore less room for argument about what should be done in which country. In only one area of the merged chemical group's activities was it obvious that capacity needed to be rationalised.

Second, Akzo has far more experience than Renault in handling takeovers.

Third, the Dutch company has developed a more enlightened attitude to the geographic dispersal of highly skilled technical activities and managerial decision making. It is, in management jargon, closer to operating as a "transnational".

Factors such as these are vital to the outcome of cross-border acquisitions such as BMW's controversial takeover of Britain's Rover car group, and the examples examined earlier in this series.

But that is not to say that nationality and culture are irrelevant. Michael Heseltine, the UK's newly internationalist trade and industry secretary, was wrong when he reacted to the fuss in February over BMW's takeover of Rover with the declaration that "ownership is unimportant". In an ideal world, it would be, but the reality is that the nationality of a parent company frequently still influences its location of key technical operations, and of managerial decision making.

The relative weight of these influences is disputed by experts in the field. Lando Zappei, the Munich-based head of Booz Allen Acquisition Services, says the two key factors in a cross-border takeover are the strategy behind it, and whether integration of the acquired company is handled well. Surprisingly, he argues that the latter is more important than the former.

As Zappei argues, takeovers tend to be relatively easy to handle where the prime motive is the complementarity of the two businesses, and the scope for transferring skills between them. Nestlé's acquisition of Rowntree, and the US-UK pharmaceuticals merger between SmithKline and Beecham, are two such examples. Far more problematic are those where the main logic is the rationalisation of overlapping businesses with excess capacity – which was, in part, the case with Renault-Volvo.

It was even more true of two former British companies whose UK production is being closed this year and transferred abroad by their new foreign owners: Thorn EMI's lighting output (being transferred by American GE to Hungary); and Bryant and May's last match line, which is being shifted by Swedish Match to its home base.

In view of the fact that many industries across Europe are in pressing need of rationalisation, such production shifts across borders will become even more common in the next few years.

But this does not mean that they will always be to the detriment of the acquired company. Zappei argues that if capacity rationalisation is properly planned, it frequently turns out to be reasonably even-handed. Only if unexpected emergency measures have to be taken is there "a strong tendency for acquirers to make cuts in the country with which they are least familiar" – in other words away from their home base.

This tendency is particularly strong in countries such as France and Italy, where the home government exerts pressure to protect domestic interests. Germany also tends to be shielded by the problems encountered in closing plants and shedding staff.

Philippe Haspeslagh, a Belgian-born acquisitions expert at Insead, the international business school near Paris, makes less of a distinction than Zappei between the impact of "rationalisation acquisitions" and those where the motive is complementarity. To him, the key factors are the extent of the acquirer's prior takeover experience, and the company's overall degree of organisational sophistication. A decade ago Thomson, the French electronics group, had a blazing row with its newly acquired Telefunken subsidiary in Germany, but since then "it has gained a lot of experience in how to handle foreign acquisitions", he says.

This has stood it in good stead with the reasonably successful integration of RCA, its largest US acquisition. But it did not protect Thomson from allegations of national bias when – in a series of salami-like cuts – it gradually closed the UK research and production operations of Ferguson, the former TV offshoot of Thorn EMI.

Haspeslagh also differs from Zappei in the importance he attributes to nationality. "It's hard to disentangle inexperience from nationality bias," he says. "Certain cultures tend to be less enlightened than others." He denies that French companies are especially bad in this respect: as he says, both Rhône-Poulenc, with a string of recent US chemicals and pharmaceutical takeovers, and the Lyon-based SEB Group, with its acquisition of Germany's Rowenta appliance company, have shown their readiness to retain highly skilled activities – and some managerial decision making – in the acquired company's country.

By contrast, he argues that Finnish engineering companies, which have been involved in many cross-border takeovers, tend to want excessively centralised corporate structures which create tension with newly acquired foreign subsidiaries.

As Haspeslagh stresses, it is relatively easy for a company to disperse R & D and other skilled jobs around the world, but far harder to distribute significant decision-making power.

Yet this needs to be done if companies are to become more responsive to market differences, and attract more top-class international managers. "There's a limited benefit in having software engineers in India or designers in the English countryside if decisions are still made in Detroit," he says.

Companies are unlikely to disperse much divisional and corporate decision-making away from their home base until they internationalise the mentality of their top management. In the meantime, home country influence over decision-making – one aspect of the so-called "head office effect" – remains overwhelmingly powerful in all but a handful of "transnational" companies, notably Nestlé and ABB.

For the rest, including almost all US and Japanese multinationals and the majority of Europeans, nationality still matters very much indeed.

Previous articles in this series appeared on April 13 and 20.


Called off at the 11th hour: Sweden's Volvo and France's Renault found that their cultures and styles were not compatible
Reuter

No need to reward good performance

Adrian Furnham on how to manage intrinsic motivation

Some jobs and tasks are intrinsically satisfying. By their very nature they are interesting and pleasant to do. How they are enjoyable depends on the preference, predilections and propensities of individuals.

Intrinsic satisfaction implies that merely doing the job is, in itself, its own reward. Therefore, for such activities no reward and no management should be required. But the naive manager might unwillingly extinguish this ideal state of affairs.

Take the case of the academic writer scribbling at home on a research report. The local children had for three days played extremely noisily in a small park near his study. The noise was highly stressful because it was simultaneously loud, uncontrollable and unpredictable.

What should be done? (a) Ask (politely) that they quieten down or go away; (b) call the police or the parents if you know them; (c) threaten them with force if they do not comply; (d) all of the above in that order.

The wise don used none of the above. Unwordly maybe, but someone whose job depended on intrinsic motivation, he applied another principle. He went to the children on the fourth morning and said that he was so delighted with their games that he was prepared to pay them each £1 a day if they carried on.

The youngsters were naturally surprised but delighted. For two days the don dispensed the cash. But on the third day he explained that because of a "cash-flow" problem he could only give them 50p each. The next day he claimed to be "cash-light" and only handed out 10p.

True to his prediction the children complained and refused to continue. They all left in a huff promising never to return to play in the park. Totally successful in his endeavour, the don retired to his study luxuriating in the silence.

This parable illustrates a problem for the manager. If a person is happy doing a task but is also "managed" through explicit rewards (usually money), the individual will tend to focus on these rewards, which then inevitably have to be escalated to maintain satisfaction.

There is considerable research on the types of job which give the most satisfaction. Contrary to popular belief, it is not merchant bankers or high-flying company executives who report most satisfaction. Many in fact yearn for early but "comfortable" retirement. Nor is it social workers, nurses or others in the care business.

It turns out that craftsmen and women report most job satisfaction. The "crafts" vary: mathematicians are very job satisfied, as are furniture makers. Goldsmiths, stone-wall builders, and other craftspeople report the highest intrinsic satisfaction.

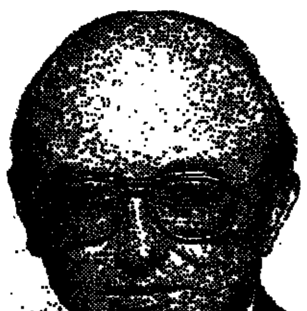
Craftspeople have intrinsic job satisfaction partly because of the pace, timing and control they have in their work but also because of their identification with the final product. However, once a fine furniture builder becomes a successful businessman he may lose his thrill in design and curving. That is why the best craftspeople have "agents" who deal with money matters. This is not only because craftspeople are frequently inexperienced at running a business, but also because many do not like it, despite the obvious monetary rewards.

Intrinsic motivation in part explains why some people continue at poorly paid employment. They do not need motivating in the usual way – through an astute mixture of carrot and stick – because they are intrinsically motivated. But, like all of us, they still respond to praise for the product or service that they supply.

For those limited few who enjoy doing what they do, working (like virtue) is its own reward.

PEOPLE

Alan Winter lays new foundations at Trafalgar House property



Alan Winter, managing director of Legal & General's property division, has been given the job of reshaping the UK commercial property business of Trafalgar House, the big conglomerate which has suffered three years of heavy losses.

Trafalgar House has been without a property boss since the end of last year when David Calverley, 52, resigned after 25 years with the group. Winter, 44, who will take over as managing director of the group's UK commercial property business in the summer, fills one of the last gaps in a top management team which has changed substantially over the past year.

Although he is not replacing Calverley on the board, and does not have responsibility for house-building, he takes charge of one of the more troublesome parts of Trafalgar House's business. Trafalgar House was a very active property developer in the 1980s and over-extended itself at the time of the recession.

Most of the old management have been replaced, the balance sheet has been repaired with a £400m rights issue, and Trafalgar House has decided to withdraw from the US commercial property market. However, it has made a "firm commitment" to remain in UK commercial property. Winter's task will be to change the focus of the business from "speculative development to the creation of income producing assets".

Winter, a chartered surveyor who joined Legal & General from Hillier Parker in September 1989, admits he is moving into a smaller job. At Legal & General he has a staff of 100 and looks after a £2.5bn property portfolio, which he says is comparable in size to that of MEPC or British Land. At Trafalgar House he will have around 50 staff and around £220m invested in property.

However, Winter says that Trafalgar House has "some interesting problems to solve" and he was tempted by the salary. He has tended to "stay a few years and then move on" at a series of property-related jobs ranging from Ford Motor to Capital and Counties. But this pattern has not hurt his record in the industry. Last week he was runner-up in the property fund manager of the year award sponsored by his old firm Hillier Parker and Pensions World magazine.

Usborne suspends pig director

Usborne, the grain trading and pig production company, yesterday announced it had suspended on full pay Michael Brown, managing director of its Daisy Hill Pigs unit, pending the result of an investigation into substantial losses in the pig operations.

"As the managing director of the pig company, he has not yet been able to elucidate on why we've lost this money," said Mike Adams, a director of Usborne and managing director of the grain trading side, but reported that Brown was co-operating with the investigation.

Last week the company said that trading difficulties had been compounded by a breakdown in management control of the pig operations, including accounting systems.

Richard Clarke, a farm business management consultant, has been appointed general manager with responsibility for day-to-day operations of Daisy Hill Pigs. "With the breakdown, we're wanting to make a complete reassessment of what future policy should be," said Adams. "We're going to make further appointments."

Shares in the company, whose chairman is Lord Parkinson, the former Conservative cabinet minister, were suspended last week at 19¼p after it warned of the first-half losses.

The Daisy Hill operation markets 5,000 pigs a week and accounts for about £30m of Usborne's annual turnover, compared with £180m from grain trading.

Anna Walker promoted at Oftel

■ Anna Walker likes competition. Not necessarily in a personal sense, although yesterday she radiated quiet satisfaction at her triumph in the cross-Whitehall contest for the post of deputy director general at the Office of Telecommunications. She replaces Bill Wigglesworth, who retired last month.

The competition for which her passion seems boundless, however, is the interplay between private and public organisations, the cut and thrust between utilities emerging from the protection of state ownership and younger challengers and the erudite accounting issues surrounding charging structures.

A graduate in history from Oxford, she joins a small female elite among the industry watchdogs which includes Clare Spottiswoode, the gas industry regulator. After university, she had spells with the British Council and the Confederation of British Industry, where "I began to see what government gets up to".

She joined the Department of Trade and Industry in 1975 and worked on a succession of regulatory and privatisation issues, including the reform of legal services, coal and rail privatisation and the early stages of the Citizen's Charter.

She has been with Oftel for some 30 months as director of competition, and says the job has "real interest and real responsibility".

■ Philip Holder has been appointed md, Nick Fisher financial director and Jordan Harris company secretary of both EAST SURREY HOLDINGS and EAST SURREY WATER on the retirement of Ian Foster.

Bodies politic

■ Sir Paul Girolami, chairman of Glaxo Holdings which provided funding for a research fellowship at GOLDSMITHS' COLLEGE, University of London, has been appointed chairman of its Council.

■ David Lawrence, former commercial director of CSL systems, has been appointed director of finance at MENCAP.

■ Patrick Twist, finance partner of Pinsent & CO, has been appointed chairman of the LAW SOCIETY Banking Law Committee.

■ Michael Corbett, managing partner of Grimley J.R. Eve, has been elected chairman of BIRMINGHAM CITY 2000.

■ Alfredo Sandovar has been appointed secretary general of the COMMITTEE FOR EUROPEAN CONSTRUCTION EQUIPMENT.

■ Bruce Smith, chairman of Smith System Engineering, has been appointed part-time chairman of the ECONOMIC AND SOCIAL RESEARCH COUNCIL.

■ Lord Thomson of Monifieth, already a trustee, has been appointed chairman of the Trustees of LEEDS CASTLE FOUNDATION on the retirement of Lord Aldington.

■ Tim Villiers, formerly chief executive of the BES association, has been appointed director of The ASSOCIATION OF POLICY MARKET MAKERS.

■ Hugh Dunsmore-Hardy, formerly a regional director of Hamptons, has been appointed chief executive of the NATIONAL ASSOCIATION OF ESTATE AGENTS on the semi-retirement of Tony Clark, who will remain as a part-time legal consultant.

■ Scott Bell (below left), md of Standard Life Assurance, has been appointed chairman of The ASSOCIATED SCOTTISH LIFE OFFICES.

■ John Peake (below right), former md and chairman of Baker Perkins, has been appointed as the first chairman of The GREATER PETERBOROUGH PARTNERSHIP, a body set up to encourage economic development in the area.

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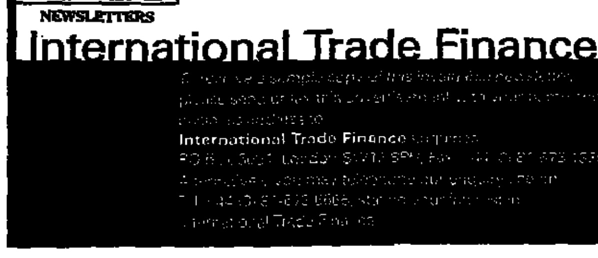

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At the time of purchase of the Bidding Instructions, the company shall present a letter containing its complete mailing address. The bid delivery will be on July 13, 1994, at 3:00 PM, at 233 Voluntários da Pátria Street, 5th floor, Curitiba – PR.

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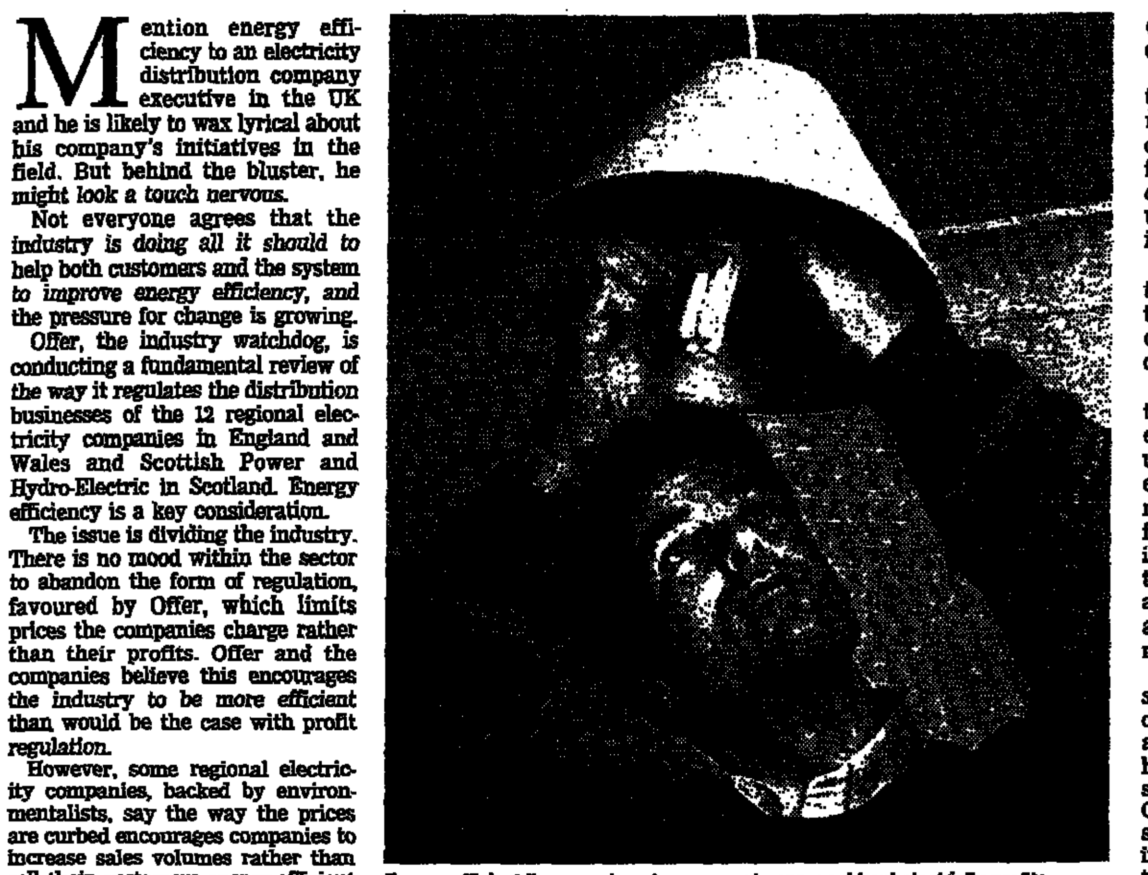
BUSINESS AND THE ENVIRONMENT



Energy-efficient items such as low-energy lamps would cut electricity profits

All eyes on efficiency

Can electricity companies be serious about saving energy if profits are tied to volume sales, asks **Michael Smith**

Mention energy efficiency to an electricity distribution company executive in the UK and he is likely to wax lyrical about his company's initiatives in the field. But behind the bluster, he might look a touch nervous.

Not everyone agrees that the industry is doing all it should to help both customers and the system to improve energy efficiency, and the pressure for change is growing.

Offer, the industry watchdog, is conducting a fundamental review of the way it regulates the distribution businesses of the 12 regional electricity companies in England and Wales and Scottish Power and Hydro-Electric in Scotland. Energy efficiency is a key consideration.

The issue is dividing the industry. There is no mood within the sector to abandon the form of regulation, favoured by Offer, which limits prices the companies charge rather than their profits. Offer and the companies believe this encourages the industry to be more efficient than would be the case with profit regulation.

However, some regional electricity companies, backed by environmentalists, say the way the prices are curbed encourages companies to increase sales volumes rather than sell their customers energy-efficient measures.

Others argue that introducing a system that leaves companies indifferent to the amount of electricity they sell would lead them to ignore customer needs. This would increase prices and eventually sideline the industry at the expense of competitors such as gas companies.

There is a consensus in the industry on the need to promote energy efficiency. As Offer says, it helps keep customers' bills down and potentially reduces the harmful sulphur and carbon emitted from electricity generating plants.

But why should the industry care? John Roberts, chief executive of Chester-based distributor Manweb, is refreshingly honest about the industry's motives. "It would be nice to say we are concerned about the future of the globe and, of course, we are. But the fact is that we would rather get into this in a voluntary way that we can control than have something imposed upon us. We cannot stand back Canute-like while others demand change."

Manweb, in common with most other regional distributors, is receptive to the idea of the regulator allowing regional companies to raise a specified amount from customers to use on targeted demand-side management (DSM).

For example, companies could aim energy-efficiency measures at low-income households which would otherwise not be interested in such activity. DSM measures, common in the US, could reduce the costs of maintaining and operating the distribution system to the benefit of all customers.

Even under the present price control arrangements, DSM can be cost effective both for power companies and their customers – for example, where it enables improvements to the network to be deferred.

However, as distributor Seeboard, based at Hove on the south coast, points out, many DSM schemes are not pursued by distributors because they will reduce the number of units sold. This is the crux of the debate over regulation and energy efficiency.

Existing regulatory controls limit rises in use-of-system charges, which form the bulk of distribution revenues. In England and Wales, these charges can rise by up to 2.5 per cent above inflation a year, while in Scotland they must fall by 0.5 per cent in real terms each year.

Crucially, however, the price control formula operates on a base price per kilowatt hour (made up of a weighted basket of components). The effect is to constrain the average revenue per unit distributed. This means total revenue depends on the volume of sales.

Critics complain that this formula does not match revenues to costs, and fails to supply the surrogate competition which is the point of regulation in monopoly industries.

The current formula assumes that all distribution costs vary with the volume of sales whereas in fact other factors include the number of customers and fixed costs.

According to the Association for the Conservation of Energy, the result is that regional distributors collect more distribution revenue from the sale of the marginal unit of electricity than it costs to distribute. "This creates an inappropriate incentive to sell more."

The association recommends there should be no volume incentive and regulation should be based on fixed costs and the number of customers.

Seeboard, a regional power distributor, supports the idea that revenue incentives should reflect underlying costs "as this is consistent with the aim of using regulatory measures to emulate competitive forces. The conflict between the incentive to sell more units of electricity and the objective of encouraging energy efficiency is clear and any revised price formula should reduce or eliminate this conflict".

Seeboard believes revenues should be linked to the number of customers served and to fixed costs, as well as volumes. That proposal, however, is anathema to companies such as Southern Electric. Henry Casley, Southern chief executive, says: "At the extreme, if the volume incentive was eliminated, distributors would not want anybody to use electricity, since extra sales would give rise to additional costs but no additional revenue. The electricity industry could be sidelined."

Southern denies that the industry has been lacklustre in promoting energy efficiency. Over the past five years its energy marketing activities have achieved cumulative sales of some 2,000 gigawatt hours which have displaced 6,000 GWh of competing fuels.

Bryan Townsend, chairman of Midlands Electricity, warns that if the link between revenue and volumes is diluted, this would put a partial or full cap on revenue and would reduce significantly the commercial incentive to continue marketing energy efficiency. "Inter-fuel competition, principally between electricity and gas, would disappear," he says. Electricity sales would fall faster than revenue and prices would be allowed to rise.

The campaign by Southern and others for the 100 per cent volume incentive to be kept seems unlikely to be fully successful. In its recent review of the regional companies' supply businesses, Offer introduced a system which related revenues to a mixture of volumes, fixed costs and customer numbers. A private letter from Offer to the regional companies last week indicated that this was likely to be the approach in the distribution review.

The question, to be answered on completion of the review in July, is how far Offer goes.

WORLDWIDE WASTE

Finding a dustbin for corruption

The lack of dump sites has put Mexican companies under intense pressure, writes **Damian Fraser**

Behind Mexico City's international airport lies one of the capital's biggest waste disposal sites. A lorry enters the site every few minutes, the driver invariably tips the security guard at the entrance, and then dumps solid, and often hazardous, waste into a vast open-air pit that stretches far into the distance.

Hundreds of scavengers, from young children to old men, walk around the fly-infested pit picking up plastic containers, bottles, cardboard boxes and anything else that can be re-used or recycled. Some scavengers sell any re-usable waste they find directly to the union which runs the dump, others pay the union boss about $20 a month for the right to sell it elsewhere. Either way, most appear to earn much more than the minimum wage.

The dumps are owned by the municipal government. The unions controlling them are powerful supporters of Mexico's governing party. Admirers point to the undeniable efficiency of the system at recycling waste; detractors attack the corruption that has made union bosses extraordinary wealthy, and the appalling health conditions in which scavengers work.

With no commercial toxic incinerators, just one authorised toxic waste site, and few modern solid-waste facilities, almost all of Mexico's household and much of its industrial waste ends up in such pits. What does not make it to these sites is invariably dumped in rivers, the sewage system, or empty fields.

The government estimates that industry generates about 6m tonnes of toxic waste a year. But according to David Robinson, a consultant with Quimica Omega, an environmental services company in Mexico City, total installed capacity for treating toxic waste is about 200,000 tonnes. He says almost all of the 800m litres of lubricating oil used every year is dumped into the sewage system – equivalent, he calculates, to one Exxon Valdez spill a month.

The problem for many Mexican industries is that while there is hardly anywhere to put their waste, the government is increasingly forcing factories to comply with environmental regulations. The government now has about 500 environmental inspectors, compared with less than 100 in 1989, and inspected 21,996 companies between August 1992 and March this year, against 1,380 in all of 1989.

The level of enforcement is still criticised by many as insufficient,

The cost of disposing of toxic waste has risen to $200-$300 a barrel – higher than in the US

and industrialists say the technical expertise and equipment of the inspectors lags far behind the US. But Mexico is catching up and penalties for non-compliers are increasing. In the 20 months since the environmental ministry was re-organised, some 1,577 industries were closed for contaminating the environment through inadmissible air or toxic waste emissions.

The increasing focus on enforcement and lack of existing environmental infrastructure has attracted scores of waste disposal companies to Mexico. The US Chamber of Commerce recently published a directory of more than 40 such companies in Mexico City, including world leaders such as Chemical Waste Management, most of which have opened during the administration of President Carlos Salinas.

David McConnell of Chemical Waste says revenues of the Mexican subsidiary increased by 40 per cent last year, and expects a similar rise this year. His company is seeking to build a new toxic waste site in Mexico, and sister organisations are working with local government on building and arranging private financing of solid waste sites.

Some Mexican companies are also investing heavily to minimise their waste, or are coming up with creative ways of getting rid of it. Jorge Martinez, head of Grupo Sidek, a steel producer, says it now sells waste to a neighbouring cement company that uses the product to fire its kilns.

Nevertheless, many small and medium-sized Mexican companies cannot afford to invest in environmental technology, especially since the recession and the opening of the country to more foreign trade have squeezed profit margins. Investment in environmental infrastructure projects, while growing fast, has been less than many hoped for.

Environmental consultants blame insufficient investment in infrastructure on government regulation, which they say is arbitrary and gives too much discretion to government authorities. José Antonio Ortega, head of Corporación Radian, an environmental services company, says there are no regulations for construction of incinerators, for treatment facilities, and that regulations on rubbish dumps are too broad and ambiguous – all of which has deterred investors.

The effect of the lack of decent infrastructure is that the cost of disposing of toxic waste has increased to between $200-$300 a barrel – higher than in the US, according to Ortega. This has meant that disposal has become too expensive for many small businesses which therefore continue to violate the law.

This concludes the series. Previous articles appeared on March 2, 9, 16, 23, 30, April 6, 13, 20.

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ARTS

Television in Italy/Robert Graham

Dirty linen aired in public

The dead corpse of Mussolini dangling *by his feet*, and being prodded by jeering Milanese, is not a pretty sight. Even seen at the distance of 49 years, the image raises troubling questions about the human condition and how the once mighty can be humbled to the point of indignity.

The Mussolini shot was one of many remarkable images from archive film shown by the RAI state broadcasting organisation in the run up to the celebration of the anniversary of Italy's liberation from fascism on April 25. It was the first time such a concentrated effort has been made to come to terms with the more uncomfortable aspects of the period of 1943-45 *when the country was* divided both because of those areas occupied by the Allies and the Germans, and by the bitter civil war between those who still backed the fascist regime and the "partisan" guerrilla movement.

Quite by coincidence, this year's anniversary coincided with the imminent entry into government of the neo-fascist MSI/National Alliance Party, which draws its inspiration from Mussolini and whose leader, Gianfranco Fini, recently declared Il Duce to be the greatest statesman this century. The electoral success of the MSI has emboldened its supporters to embark on a major exercise in historical revisionism, trying to highlight the positive aspects of the Mussolini era and play down the negative side.

In this atmosphere, any attempt by television to deal with the "liberation" risked exacerbating existing prejudices and thus losing any educative function. All the more so since the new right is determined to end the near monopoly over cultural attitudes exercised by the Italian left since the second world war – not least in television.

However, the RAI proved to its credit television can be a highly effective means of jogging the collective conscience as well as act as a forum for national reconciliation. It is perhaps significant that the commercial channels, dominated by the three owned by *future premier Silvio Berlusconi*, produced nothing original or controversial for the occasion and limited their *contribution* to the traditional chat shows which fill the screens for up to three hours nightly.

The centre-piece of RAI's programming was a series called *Combat Film*, based round previously unseen material contained in the archives of the US Army in Washington. (From the subsequent discussion programmes, it was clear the material was also *unknown* to historians.) The film was shot by US combat camera crews following the army up Italy and was shown often unedited, giving an extra rawness to the images.

The style was incredibly matter of fact, a simple recording of events without judgment or emotion

The style was incredibly matter-of-fact, a simple recording of events without judgment or emotion, and shown on RAI usually without direct sound. Some of the events were "historical", like that of the dead Mussolini strung up in Milan alongside his mistress, or the Allied entry in Rome. But much was the casual incidence of war and fratricidal conflict: the fascist spy calmly smoking a cigarette, arms tied to a pole a few moments before his body crumples under the impact of bullets from a firing squad; orphans being entertained by GIs at Christmas; a small barefoot-boy striding ahead of a column of gaunt refugees along a dusty road.

These images were constantly commented on in the studio – often by interrupting the film or re-projecting selected passages – by a group of historians. But from the general public's point of view, the events were brought alive by the programme organisers *researching some of the individuals* in the clips and bringing them into the studio. Others subsequently rang in recognising themselves and their relatives. Thus the barefoot boy was found, a burly military man in his fifties; a partisan *came forward* whose unit was betrayed by the shot spy who explained how the man lived with them for two weeks dissimulating friendship.

The emotions of these people in the studio, confronted with the power of the image on memory, managed (just) to avoid the sentimental. These were all people caught up in events bigger than themselves. Although they had had never *forgotten*, or *wanted to forget*, time had produced if not a catharsis, at least a sense of reconciliation.

As so often in Italian television, the impact is diluted by the length and unstructured nature of the ensuing discussion programmes. Nevertheless, on this occasion some of the historians had the merit to make brutal judgments. One in particular observed that the 300,000 celebrating in Milan the April 25 Liberation Day was greater than the total number of partisans: in other words most of Italy was caught in the middle and shifted from one side to the other when the tide turned. This historian also caused one reel to be slightly rewound to reveal a remarkable sequence in the liberation of Bologna: a man is seen giving the fascist salute to a passing Italian flag; a companion points out his mistake and the salute transforms rapidly into a clenched fist... The image of changing Italy, he said...

But television has not only been the conscience of Italy's past. It is being used to dramatic effect to expose the state of present corruption that has brought down an entire political class. The final stages of the first major corruption case to come to trial have been compulsive viewing over the past week. It has been shown live for as much as four hours a day and all channels have offered selective replays and commentaries in the evenings.

The trial is of Sergio Cusani, a cool disdainful figure who was one of the key intermediaries organising the flow of illicit funds from big business to politicians through a host of intermediaries. He is alleged to have handled some $150m in four years.

The case has far more drama than a Perry Mason series: the nation is seeing the dirty linen of a corrupt political system being washed in public. The public prosecutor, Antonio Di Pietro, Italy's most prominent investigative magistrate, has a marvellous down to earth sense of humour. And he has conducted his summing up with the latest computer wizardry. For the first time an Italian court has seen computer graphics (tracing the complex routes of illicit funds) and audio-visual aids with replays of witnesses' statements.

But is this fascinating trial by television legitimate viewing and does it further the cause of justice? The cynics would say that television channels, state and private, are desperately short of funds and this is a cheap and easy way of providing entertainment. Even if this argument is not wholly true, this "video-justice" is served up basically as entertainment – rather than as how a system of justice works, or as a didactic exercise in the evils of the old corrupt ways.

Hulton-Deutsch Collection

Mussolini strung up with his mistress: still a troubling image today

Theatre/Alastair Macaulay

Real drama from the Maly

The particular pleasure of the Maly Drama Theatre's current tour of Britain is the opportunity it affords to watch this exceptional ensemble in one play after another. A larger impression – it is too dark to be simply called a pleasure – is the way in which all the plays reveal the tragic history of Russia in terms of (often comic) human detail.

Stars in the Morning Sky and the two-part *Brothers and Sisters* – which other parts of Britain have seen before, but which Manchester is seeing for *the first time – catch two different* Russian communities at two different stages in this century's history. In *Stars* four Moscovite prostitutes are temporarily exiled to a barracks during the 1980 Moscow Olympics (so that foreign visitors will not note such scum); *Brothers and Sisters* is about a northern Russian village in the immediate postwar era. *The* lighting of the Olympic flame thrills the prostitutes, but passes them by, *just as the end* of the 1939-45 war seems like the dawn of a new era to the villagers of *Brothers and Sisters*, until they find that the new era is just as tough and more hopeless.

The great achievement of these plays is, however, not that they fill you with gloom about Russia, but that they catch so broad a range of humanity. Not one of the prostitutes in *Stars* is a "type". Each is distinct, with her own peculiarities, and a nervous system brilliantly revealed. Strangest and most forlorn is Maria (Anzhelina Nevolina), who seems at last to have found love with Nikolai but who is doomed by her own past. Even as she nestles in his lap, and tells him "Only you treat me as if I am human", she wriggles madly as if half-seeking escape. Most glamorous is Lora (Tatiana Rasskozova), often speaking of her supposed career as a trapeze artist and bearing herself like a ballerina. She finds (the play's greatest irony) tenderness with Alexander, a patient from a mental asylum.

The dramatis personae of *Brothers and Sisters* is larger – 31 actors (men and women; old people, young ones adults, and children) – and the action takes them through several years. We see two men talking about women; all the women in the village talking about men; several different households; love-affairs that last and others that evaporate. And we see the whole community, based around the Kolkhoz (collective farm), coping with successive issues of moral outrage, severe taxation, wedding celebrations, seasonal festivals, chronic poverty. At the end you are sad simply because you want to know more of these people. (A third play, *House*, to be seen in Glasgow and Newcastle, covers the same characters 20 years later.)

There are several features of stagecraft *(some of which I noted* two weeks ago apropos of *The Cherry Orchard*) that constitute a Maly house style. Best of all, scenic economy. The lighting – coming from above, against a black backdrop – works far better in these plays than in Chekhov. I still find that too much of the action is symmetrical, and that too many speeches are delivered on the centre-line of the stage facing the audience, though only in Chekhov do these really mar the play.

But I am astonished at the perfect naturalness with which this stage ensemble interacts. The first act of *Brothers and Sisters* ends with a huge long party that I did not want to end. One woman is shocked when another woman flirts with her husband, but when people try to make her kiss her own husband in public she is wooden. Everyone congratulates the young Mikhail, returned from the war, and makes him drunk; but his mother suddenly wails out loud about the husband she has lost. Laughter, tears, tenderness, resentment, joy, despair – all present, all brimful, all utterly real.

Touring to Glasgow, April 29-May 15; Newcastle, May 18-21; Nottingham, May 24-28

Our critics review two great European orchestras on tour in London

The Vienna smiles for Muti

Leipzig, Amsterdam, Vienna: three great orchestras of the world converged on London over the course of a long weekend. Baggage collection at Heathrow must have interesting, as assorted violins and cellos, trombones and timpani fought for space going round on the carousel.

For its European series the Vienna Philharmonic is visiting Berlin, Paris and London three times a year, each programme with a different conductor. The last of this season's trio was Riccardo Muti, on Monday at the Royal Festival Hall. In Salzburg Muti and the Vienna orchestra have become regular partners, especially in Mozart operas, where Muti demands a highly-strung intensity a long way from the laid-back playing most of his colleagues get.

That did not come across so forcefully in London. In the outer movements of Beethoven's Eighth Symphony Muti was vigorous and emphatic, getting more attack out of the violins than they would have given Böhm, but the inner movements were featureless – not witty or pointed at all.

The Vienna musicians play Stravinsky less often, which may account for an extra sharpness of concentration. The divertimento from the ballet *Le Baiser de la fée* is *uncharacteristically romantic* Stravinsky and Muti drew rich textures, lyrical phrasing wherever *the opportunity* presented itself. The wind playing was immaculate, as ever, and he teased out a delightfully Viennese lilt.

For the main work they *turned to* Tchaikovsky proper, the Fifth Symphony. Like other Italian conductors, Muti is interested in Russian composers (not only Tchaikovsky, but also Scriabin and Prokofiev). He takes a red-blooded view of this symphony, wholeheartedly supported by the Vienna players in full cry, but the high drama of the performance teetered on the self-conscious. A Russian showman *like Svetlanov is more likely* to get to the heart of the matter.

With the encore we perhaps came closer to Muti's heart: the Overture to Rossini's *Il viaggio a Reims, played by* bubbling wind soloists, brass now on a tight rein, and *strings untidy* but effervescent. Muti smiled and one sensed that the orchestra *smiled too*. Next season the Vienna Philharmonic returns for another European series, when the three conductors will be Giulini, Haitink and Ozawa.

Richard Fairman

Dutch triumph with Mahler

In the Barbican's *ongoing* series "Great Orchestras of the World", some orchestras *have sounded* distinctly less great than others. On Sunday afternoon, however, Amsterdam's Royal Concertgebouw Orchestra displayed the very standard we *have* been trying to remember. Fearlessly secure and superlatively musical, Mahler's 7th *Symphony, the sole work in its* programme, was marvellous to hear, and the standing ovation was *fully earned*.

It would be hard to pretend that any London orchestra these days could guarantee such a performance. If the trumpets do not crack somewhere the horns probably will, and anyhow the violins will rarely have enough thrust at climaxes to cut through Mahler's teeming orchestra and make themselves felt.

By contrast, the absolute *security and freedom of the* Amsterdam players was awe-inspiring. No doubt their enviable working conditions are conducive to those virtues. The conductor was the Italian Riccardo *Chailly, who inherited* his distinguished post in 1988 from the long line of Bruckner-and-Mahler *devotees who* established the Concertgebouw Orchestra's reputation. *Already noted* as a fine Stravinskian and a specialist in extrovert Russian and French *music*, Chailly has had to win his spurs in that special Viennese repertoire.

Mahler's *Seventh* was a bold choice for a London showcase, for it is notoriously "problematic". Full of bold ideas, as experimental and perversely chromatic as *Mahler* ever got (his choral "Symphony of a Thousand", would be broader-brushed and operatic, his Ninth grandly and serenely *backward-looking*); but weirdly rounded off with a cheerful, racketty C major finale in *shameless Meistersinger-mode*.

Chailly spelled everything out in richly idiomatic detail, *very forward*: if the Scherzo was too muscular and up-front to count as *schattenhaft* ("shadowy"), *like everything* else it sounded brilliant. The trees stood out so vividly that the woods *rather receded*; there was less sense of symphonic arguments and inexorable conclusions than of unstoppable, overflowing fantasy. In this exhilarating performance, that was more than enough to be going on with.

David Murray

Supported by the Netherlands Foreign Investment Agency and the Ministry of Agriculture, Nature Management and Fisheries

Alastair Muir

A joyful scene from 'Brothers and Sisters'

INTERNATIONAL ARTS GUIDE

BONN

Oper Tonight: Les Contes d'Hoffmann with Francisco Araiza. *Tomorrow:* Tosca with Larissa Shevchenko. Fri, Mon: La fanciulla del West. Sat, *Tues: Valery Panov's* production of Prokofiev's ballet Cinderella (0228-773667)

COLOGNE

Philharmonie Tonight: Cologne Radio Big Band. Tomorrow: Yehudi Menuhin conducts Philharmonia *Hungarica* in works by Haydn, Mozart and Bartok, with piano soloist Jeremy Menuhin. *Fri: Zdenek* Macal conducts Cologne Radio Symphony Orchestra in Weber, *Mendelssohn, Wagner* and Strauss, with the Labeque Sisters. Sat evening, Sun morning: *Cologne Chamber Orchestra* plays Mozart, with piano soloist Jörg Demus. Mon: Virtuosi Saxoniae plays Vivaldi, Bach and Mozart, with trumpet soloist Ludwig Güttler. *Tues:* Kiev State Opera Orchestra and *Chorus in choral works* by Musorgsky and Prokofiev. Next Wed: Shura Cherkassky (0221-2801)

Opernhaus Tonight, Sat (also May *6, 13, 15, 20, 23, 29): Macbeth* with cast headed by Alexandru Agache and Elizabeth Connell. Tomorrow: *TanzForum production of* Peer Gynt, choreography by Jochen Ulrich. Fri: Ariadne auf Naxos with *Alessandra Marc, Dolores* Ziegler and Peter Svensson. Next Tues: Die Zauberflöte (0221-221 8400)

Schauspielhaus A *new production* of Ibsen's Rosmerholm opens on Sat at the Schlosserei. Repertory also includes Molly Bloom, an adaptation for the stage based on the character from *James Joyce's* Ulysses (0221-221 8400)

COPENHAGEN

Royal Theatre Tonight, tomorrow, *next Tues:* new production of John Neumeier's ballet set to Mahler's *Des Knaben Wunderhorn* and *Fifth* Symphony. Fri: Peter Grimes. Mon: Der Rosenkavalier (tel 3314 1002 fax 3312 3692)

FRANKFURT

Alte Oper Tonight: Martin Turnovsky conducts Prague Symphony *Orchestra* in works by Prokofiev, Ravel and Dvorak, with piano soloist Vardan Mamikonian. *Fri: Riccardo* Muti conducts Vienna Philharmonic Orchestra in Beethoven, Stravinsky and Tchaikovsky. Sat: Heinz Holliger plays oboe concertos with Detmold Chamber Orchestra. *Sun:* Ingo *Metzmacher conducts* Ensemble Modern in Turnage, Gershwin, Bernstein and others. Tues: *Daniel Nazareth conducts* MDR Symphony Orchestra and Chorus in Beethoven's Ninth Symphony. Next Wed: Ghena Dimitrova and Paata Burchuladze sing Verdi arias and *duets with Stuttgart Philharmonic* Orchestra. May 11-14: concert performances by Chorus and *Orchestra of Metropolitan Opera* conducted by James Levine (069-134 0400)

Oper Fri, Sun: Hans Zender conducts Veit Volkert's new production of Peter Cornelius' comic opera Der Barbier von Bagdad. Sat: Frankfurt Ballet in choreographies by *William Forsythe and Amanda* Miller. May 8: first night of Nuria Espert's new production of Elektra *(069-236061)*

DRESDEN

Semperoper Tonight, Sat: George Alexander Albrecht conducts Steffen Piontek's new production of La clemenza di Tito, with cast headed by Hans Peter Blochwitz. Tomorrow, Sun: La Cenerentola. Fri: ballet mixed bill. Mon, Tues: Dresden *Staatskapelle symphony concerts* (0351-484 2323)

Kulturpalast Sat, Sun: Yuri *Temirkanov conducts Dresden* Philharmonic Orchestra in works by Weber, Beethoven and Prokofiev, with piano soloist Alicia de Larrocha (0351-486 6666)

STOCKHOLM

Konserthuset Tonight: Gennady Rozhdestvensky conducts Royal Stockholm Philharmonic Orchestra in works by Börtz, Messiaen and Shostakovich, with organ soloist *Erik Lundkvist* (tickets 08-102110 information 08-212520)

Berwaldhallen Tomorrow and Fri: *Jörg-Peter Weigle conducts Swedish* Radio Symphony Orchestra in works by Elgar, Beethoven and Bruckner *(08-784 1800)*

Royal Opera Tomorrow: La boheme. Fri: Suppé's operetta *Boccaccio. Sat: Arne Mellnäs's new* two-act opera Doctor Glass (tickets 08-248240 information 08-203515)

Rotundan Tomorrow: *Peter* Bengtson's new chamber opera Jungfruma (The Maids), after the play by Jean Genet (tickets 08-248240 information 08-203515)

GOTHENBURG

Konserthuset *Tomorrow, Fri:* Neeme Järvi conducts Gothenburg Symphony Orchestra in Beethoven's *Fourth Piano Concerto* (Justus Frantz) and Strauss' Alpine Symphony. May 4, 5, 7: Järvi conducts Verdi's Requiem. May 6: Murray Perahia (031-167000)

MUNICH

Staatsoper Tonight, *Sat, Tues: La* forza del destino with Sharon Sweet, Doris Soffel, Dennis O'Neill, Wolfgang Brendel and Jan-Hendrik Rootering. Tomorrow: John Cranko's ballet Onegin. Fri, Mon: Peter Schneider conducts Dieter Dorn's production of Cosi fan tutte, with Amanda Roocroft, Marilyn Schmiege, Manfred Hemm and Rainer Trost (089-221316)

Gasteig *Tonight:* Daniel Nazareth conducts MDR Symphony Orchestra and Chorus in Beethoven's Ninth Symphony. Tomorrow: Ivo Pogorelich piano recital. Sun: Scharoun Ensemble plays Brahms, Johann Strauss and Saint-Saens. Next Tues: Claudio Abbado *conducts Berlin Philharmonic* Orchestra (089-4809 8614)

Herkulessaal der Residenz *Tomorrow: Arturo Tamayo conducts* Bavarian Radio Symphony Orchestra in fourth Munich Biennale *International festival for new* music-theatre. Continues for the next three weeks at various venues, and includes the world premiere on May 18 of Benedict Mason's new football opera *Playing Away*, conducted by Paul Daniel and staged by David Pountney (Tickets: *089-4809 8614. Information:* 089-4809 8625)

HAMBURG

Staatsoper Tomorrow, Fri, Sat, Mon, Tues: *John Neumeier's version* of Prokofiev's ballet Cinderella. Sun: Der Rosenkavalier with Edith Mathis, Barbara Bonney and Kurt Moll. May 6: Christa Ludwig farewell recital. *May 8: first night of Harry Kupfer's* new production of Khovanshchina (040-351721)

Musikhalle *Sun morning: Justus* Frantz is piano soloist and conductor in a Beethoven programme with Sinfonia Varsovia. Mon: Gennadi Rozhdestvensky conducts *Royal* Stockholm Philharmonic Orchestra (040-354414)

LEIPZIG

Gewandhaus Tonight: Volker Rohde conducts Orchestra of the Leipzig *Mendelssohn Conservatory* in Mozart, Haydn and Beethoven. Fri: Igor Oistrakh violin recital. Sat: *Daniel Nazareth conducts* MDR Symphony Orchestra and Chorus in Beethoven's Ninth Symphony. Sun: *Peter Rösel piano recital. May* 8: Simon Rattle conducts City of Birmingham Symphony Orchestra (0341-713 2280)

Opernhaus Tomorrow: Cosi *fan* tutte. Sat: Lohengrin (0341-291036)

HELSINKI

Finnish National Opera Tonight: L'elisir d'amore. Tomorrow, Sat: three Stravinsky ballets, choreography by Robbins, Uotinen and Nijinsky. Fri, Mon: La traviata. *Sun: Teresa Berganza song recital.* Tues: Nicolai's Die lustigen Weiber von Windsor (0-4030 2211)

LYON

Opéra Tonight, Sat: Kent Nagano conducts Ernst Theo Richter's production of Strauss' Le bourgeois gentilhomme and the original 1912 version of Ariadne auf Naxos. Tomorrow: Charles *Dutoit* conducts Orchestre National de France in works by Liszt and Mendelssohn, *with violin soloist Salvatore Accardo* (tel 7200 4545 fax 7200 4546)

OSLO

Konserthus Tomorrow, Fri: Rafael Frühbeck de Burgos conducts Oslo Philharmonic Orchestra and Chorus *in works by Haydn and Ravel* (2283 3200)

STUTTGART

Staatstheater Tonight, Sat: *Philippe* Auguin conducts Jossi Wieler's production of La clemenza di Tito. *Tomorrow: John Cranko* Ballet School. Fri: Nono's Intolleranza 1960. Next Tues: Don Giovanni (0711-221795)

ARTS GUIDE

Monday: *Berlin, New York and* Paris.
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Ian Davidson

1867 and all that

British foreign policy has developed little over the past century

John Major on Monday enjoyed a modest reprieve from unfavourable publicity when he hosted the launch of a four-power peace initiative for Bosnia. Whether this new international "contact group" will bring peace is an open question. The good news is that the US, Russia, France and the UK will try to work together; the bad news is that their efforts will still depend on the goodwill and good sense of the Serbs, the Croats and the Bosnians. Since those two commodities have long been in short supply, it is probably not urgent for John Major to start ordering the champagne.

What is doubly urgent, though, is for him to develop a plausible British strategy on Europe; and the first critical test of whether his government is even looking for such a strategy will be his meeting today with Chancellor Helmut Kohl of Germany.

It is a critical summit because Germany will be setting the agenda for Europe in the second half of this year, when it takes over the presidency of the European Union; and this agenda, which it has said will include a high-pressure timetable for opening Europe to the east, will also hurry Europe towards uncomfortable choices over the dilemmas before the Union – over where it is going, what policies it should have, and what kinds of institutions it needs.

Some people seem to think this will be a wonderful opportunity for turning the Union into a vast inter-governmental free trade area, without policies, with a much smaller budget and much weaker institutions. That is obviously one kind of European model; and perhaps it is the kind of Europe which would, ideally, most appeal to the UK government. It is the kind of Europe the UK tried to get in the 1950s; it failed.

But in today's world there are two relevant questions. First, has this kind of Europe the smallest chance of acceptance by most member states? Second, and more important, is the British government prepared for an open struggle to bring it about?

The historical answer to the first question is clear: the founding members and most subsequent members have consistently preferred a more politically integrated Europe. They may change their minds. But we see how many European electorates are disillusioned with their national political systems and the EU because of unemployment and other deprivations perceived as having been brought about by widespread economic "restructuring". Is it plausible to suppose that most member states will be eager to throw away

If the UK wants a different kind of Europe, it should get ready for the fray right away

those parts of the EU system, such as the Social Fund and social legislation, which are designed to mitigate some of the inequalities of the free market? Moreover, is it plausible to suppose that they will endorse a Europe advocated by Britain?

The second question is more relevant because, if the British government really wants to fight for a different kind of Europe, it should get ready for the fray right away, with a coherent concept and a feasible strategy. Any struggle over the future of Europe will certainly come no later than the Inter-Governmental Conference of 1996 for revising the Maastricht treaty; and it may come much sooner through German pressure to open to the east.

As of now, the UK does not appear ready for any uncomfortable choices. It has just retreated ignominiously from a fatuous crusade over majority voting, which was not just unwinnable but damaging to Britain's position in Europe. But it appears to have drawn no strategic lessons from this narrowly-avoided crisis. In the absence of a European manifesto, something it dare not publish, the Conservative party appears hopelessly divided on Europe, and its strategy is limited to empty rhetoric in the hope that future choices can be finessed.

The oddity is that Britain has long enjoyed a luminous reputation for the profundity and Machiavellian skill of its foreign policy; and people say that Mr Douglas Hurd is the greatest foreign secretary in living memory. Is this just an illusion?

Walter Bagehot, the great 19th century editor of The Economist chiefly remembered for his analysis of the English constitution, also had trenchant things to say about British foreign policy. Here* he examines the reasons why it is "not so good as it should be": "There are two great causes at work," he says. "The first of these causes is our ignorance... On many parts of our administration the effect of our extreme ignorance is at once plain. The foreign policy of England has for many years been, according to the judgment now in vogue, inconsequent, fruitless, casual; aiming at no distinct pre-imagined end, based on no steadily preconceived principle... I entirely concede that our recent foreign policy has been open to very grave and serious blame.

"But would it not have been a miracle if the English people, directing their own policy, and being what they are, had directed a good policy? Are they not above all nations divided from the rest of the world, insular both in situation and in mind, both for good and for evil? Are they not out of the current of common European causes and affairs? Are they not a race contemptuous of others? Are they not a race with no special education or culture as to the modern world, and too often despising such culture?

"Who could expect such a people to comprehend the new and strange events of foreign places?"

It appears that little has really changed since 1867.

* *The English Constitution; by Walter Bagehot; Introduction by Richard Crossman; Fontana Press; £7.99*

They plough a lonely furrow

Alison Maitland asks why women farm-owners in Britain are such as rare breed

Mrs Catherine Mack has come a long way since she and her husband bought five Shetland sheep to act as a lawnmower on their single acre of precipitous hillside.

Today she runs Britain's only organic farm approved by the Rare Breeds Survival Trust – on 336 acres in the West Country, with a turnover of about £250,000 a year. It boasts 14 breeds of sheep, six types of cattle, four varieties of pigs, organic wheat, a shop, guided tours, goats and ponies.

But her 14-year uphill struggle to success owed nothing to the male-dominated farming establishment. She found the National Farmers' Union, instead of welcoming her into the fold, was chauvinistic and clannish. "I went to a meeting one night about muck-spreading – a major problem because of the pollution it can cause," she said. "I arrived and was told the cookery demonstration for wives was upstairs."

Women who own or manage farms in their own right are a rare breed. The Wye agricultural college in Kent, part of London University, estimates only 1 to 3 per cent of UK farms are headed by women. This means women are largely excluded from important decisions on agricultural policy. For example, the 83-member NFU council, whose views are influential in Whitehall, has only two women.

Yet most farms would not function without an unpaid woman – the "farmer's wife" – on duty from dawn until after dark to do the paperwork, answer the phone, deal with callers, cook meals and help with manual work. "We have men who still look at women as the second sex," said Mrs Julia Duffield, chairman of the Women's Farming Union. "Yet women in agriculture do everything their husbands do and more." The organisation, set up to promote British farm produce, has encouraged solidarity among farmers' wives – but is dismissed by some wives for not being involved in heavyweight political activity.

"Excluding women from managerial positions means denying the production end of the agricultural industry 50 per cent of the potential talent when new blood, new ideas, new approaches are needed," said Dr Ruth Gasson, agricultural economist at Wye college.

This undervaluing of women has not so far been a serious issue in the industry. But Mrs Gillian Shephard, appointed agriculture minister last summer – one of only two women in the cabinet – may change that.

Colin Beare

Making hay: Catherine Mack, who runs an organic farm, has succeeded in a male-dominated world

Her appointment has provided a rallying point for women in farming. "When I go to NFU meetings, women come because I am a woman minister and a lot of them say, 'I feel I'm involved – you understand that'," Mrs Shephard said. Some are simply relieved the industry is at last represented by a woman; but others want action. Mrs Shephard is planning to respond to that pressure this summer by announcing a package of educational and other measures to promote women in farming.

The biggest problem is inheritance. This is still the typical route into farming and most farmers name their sons as successors, reflecting the farming community's conservatism. Only one in five farmers, whose forebears were also farmers, name a daughter as successor, according to a survey by Dr Gasson. Yet the figure is almost one in three for farmers who have come from another industry.

Mrs Sarah Ward, who owns a 800-acre mixed farm in Kent, said she had to be "extremely strong-minded" to avoid being sidelined 15 years ago when her younger brother showed no interest in inheriting the farm and her father wanted to sell up. "I felt, being business-minded, that it was a very big asset that shouldn't have gone out of the family," she said.

A former Woman Farmer of the Year and member of the Countryside Commission advising the government on rural issues, she believes "women will only have a more important role to play if they can get their hands on the money and the property".

For women who do not inherit farms, money or financial acumen – or a partner with either – may be the only way to overcome obstacles to ownership. Mrs Mack, a former state school teacher, is married to the financial director of United Friendly, the life assurance company. "George had the right contacts and the earning power," she said. "I couldn't have done it."

For farmers' wives – as opposed to women in control of farms – one way of sharing the financial reins is via diversification. The incentives to follow such a route are growing as incomes are squeezed in traditional sectors such as dairying, hit by the introduction of Common Agricultural Policy quotas. Diversifying into horse riding or bed-and-breakfast helps raise cash and awareness of the woman's contribution.

New skills, such as the use of computer records or sophisticated financial management, will also be needed as the industry is exposed to market forces under CAP reforms and the Uruguay Round deal.

Mrs Marie Skinner, one of the two women on the NFU council, farms 500 acres of cereals in Norfolk in partnership with her husband. She is responsible for buying and selling the grain and uses options to hedge against unexpected price changes. "The way farming has changed has made it possible for me to become involved because there's a lot more work that needs to be done on the business side," said Mrs Skinner, a former teacher who started farming when her father-in-law died.

Her high profile in the NFU arose from a letter she wrote to a farming magazine 10 years ago attacking the union for complacency. It caused such a stir that she was offered a regular column on agricultural issues in Farmers' Weekly, the trade magazine.

Although Mrs Skinner writes about general policy issues, rather than women per se, she believes there are female strengths in farming: "Where women are better is in anything to do with diversification, anything that means standing back and looking at the business in a new, more open way."

That may explain why women are better represented in less conventional areas, such as organic farming. "It makes a lot more sense to women," said Ms Helen Browning, chairman of British Organic Farmers, which has six women on its 12-strong committee. She inherited the tenancy of a 1,350-acre Church of England farm near Swindon from her father and is converting it to organic production.

Though a business with a £1m a year turnover clearly requires financial ability, she argued women had different priorities to males. "Conventional agriculture can be very macho," she said, adding that competitiveness led farmers to focus on producing more. "But there's another side of humanity which says: hang on a minute, are we just chasing our tails? Isn't money better spent doing something more long-term and enjoyable?"

Ms Browning believed women are barred from management positions by a lack of all-round training opportunities. "Women tend to be isolated in things like calf-rearing which men see very patronisingly as a maternal thing. It's rare to find a skilled female tractor driver or mechanic. But to get a farm manager's job you need to be able to convince your boss you can handle that side of things."

At Harper Adams, one of the country's largest agricultural colleges, the proportion of women graduating has nearly trebled to 30 per cent in the last decade. But most train for jobs in marketing, food retailing, research and advisory services rather than farm management – "an area that's still extremely difficult for women," said Mr Tony Harris, principal.

Mrs Shephard sees training as the key to change: "The more women train, the more likely it is that when farms pass from hand to hand, women will have a claim."

So will Mrs Mack's eldest daughter Eleanor, aged 19, be taking over Norwood Farm when her mother retires? That's far from certain. "I want to be an engineer," she said.

This announcement appears as a matter of record only

New Issue March 1994

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LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Remember, the taxpayer picks up the tab

From Mr C F Foster.

Sir, American taxpayers are currently paying some billions of dollars to cover the losses incurred when their savings and loan institutions (building societies) were deregulated. British taxpayers, therefore, would be wise to be vigilant about the goings on between Lloyds Bank and the Cheltenham & Gloucester Building Society because they will have to pay depositors if anything goes wrong.

To protect taxpayers governments have always insisted on prudential financial practices at building societies. It is this conservative financing that appears to have created the £2bn plus which Lloyds Bank is proposing to divide between itself and the voters of the C & G.

In the late 1980s and the early 1990s British clearing banks, by improvident lending, lost many billions of pounds and there was a serious danger of financial collapse. In a quiet conspiracy the Bank of England, the government and the other regulators agreed that the banks should repair their balance sheets by exerting their monopoly powers over small and medium-sized business by sharply raising their charges. This process was described by John Plender as "leveraging" (The Long View, February 19). The banks have now mostly recovered their capital but Lloyds Bank, which made smaller losses than the others, has built up a cash pile of £1.8bn which it is seeking to spend on the C & G.

When all the banks have bought themselves a building society and the societies have made some improvident loans, who will pick up the tab – the bank shareholders, the depositors or the taxpayer?

C F Foster,
Arley Hall,
Northwich,
Cheshire

CEGB: unlikely origins of readiness for a crisis

From Dr Eric Booth.

Sir, The inside story of the CEGB's role during the miners' strike of 1984-85 ("We kept the home fires burning", April 23/24) is a hair-raising thriller.

As a former board member for engineering of the CEGB, I am able to add an ironical footnote about the oil-burning stations which played a vital part in maintaining the nation's electricity supply. The new plant programmes which gave us Fawley, Grain, Ince B, Kingsworth, Littlebrook C and Pembroke were embarked upon during the 1960s as a direct result of the CEGB's fear of a coal crisis.

This was not an example of outstanding prescience on our part; we had heard neither of Arthur Scargill nor Margaret Thatcher, and Walter Marshall was the name of a bright young physicist at the UK Atomic Energy Authority.

Our fear was not directly of the National Union of Mineworkers but of the National Coal Board, which seemed unable to manage its labour relations and had shown itself willing to take more than reasonable advantage of its captive customer, the CEGB. We feared worse to come and decided to increase our heavy fuel oil buying capability.

The crisis which broke roughly 23 years later was not the one we had envisaged. The CEGB's response had two main features: equipment which proved more than equal to the task (oil burning, nuclear and other generating stations); and a group of men who recognised their statutory duty to provide the nation with a power supply and had the determination and ingenuity to carry it out.

Eric Booth,
Pinecroft,
Upper Dunsforth, York

Fly the Chunnel instead

From Jean Castellini.

Sir, I very much enjoyed your "Business Travel" (April 20), especially the section on various "airports of the world". However, I have to say that Ms Rawsthorn's report on Charles de Gaulle airport was typical of a certain Anglo Saxon arrogant wit (whereas your other airport descriptions struck me as being quite neutral), as well as a collection of all possible clichés you may gather on France – the *foie gras*, the expensive clothes, the Concorde-travelling top models, *le "glamour", quoi!*

I must have flown into, and out of, Roissy a good 100 times over the past 10 years, and have never had to complain about my luggage being "pillaged", not even opened. As far as our "sticky-fingered luggage handlers" are concerned, they, too, probably would be happy to wear Chanel gloves to handle Ms Rawsthorn's personal belongings.

Much to many people's surprise, France has less "numerous national holidays" than many other European countries (I have to admit, however, that the point on public sector strikes was more relevant). And I honestly have to say that I have never had "to wait – and wait" for a bus at the RER station, whereas I have been stuck at Acton Town for half an hour (at least) because of a signal defect on a quite regular basis...

What Ms Rawsthorn needs, and must be eagerly awaiting, is the Chunnel. She will be able to shop until she drops in downtown Paris, and then not have to worry about struggling all the way to Charles de Gaulle. And then enjoy frequent unexplained stops in the beautiful English countryside on her train journey back to London. *Bon voyage!*

Jean Castellini,
1, rue Humblot,
75015 Paris, France

UK's strong bonds with Germany must be re-emphasised

From Mr Giles Radice MP.

Sir, Showing he does not have his predecessor's hang-ups about the Germans, John Major went out of his way in a speech in Bonn three years ago to congratulate Chancellor Kohl on the "enormous skill and quiet authority" with which he steered German unity. I noted Mr Major's key message that the Conservatives and Mr Kohl's Christian Democrats "can achieve great things together in Europe and for Europe".

When Mr Kohl comes to London on Wednesday, I am afraid that the German chancellor will not think the prime minister has delivered on that promise. From a German perspective the British, under Mr Major's leadership, have been almost as awkward and as unreliable as they were under Mrs Thatcher. It is true that, in the negotiations leading to the General Agreement on Tariffs and Trade agreement, the British and German positions were almost identical. Also, the British supported the Germans on siting the European Monetary Institute in Frankfurt.

However, by consistently putting short-term party concerns before the national interest, Mr Major has failed to create partnership with Germany. At Maastricht, he used up much of his credit with Mr Kohl by insisting on the double "opt out" over monetary union and social policy. The recent fiasco over qualified majority voting was mainly caused by Mr Major's insistence on fighting a European battle to keep favour with Tory Eurosceptics.

If Mr Major is wise, he will return to the strategy of emphasising Britain's strong bonds with Germany in the economic, strategic and political fields. Britain and Germany should jointly endorse the goal of allowing Poland, Hungary, the Czech republic and Slovakia to join the European Union as soon as possible.

The emphasis of next year's VE Day celebrations should be on the success of our post-war reconciliation with Germany. To back this up, Britain needs to expand massively its youth and school exchanges with Germany, along the lines set out in your editorial, "Anglo-German understanding" (April 11). It would be disastrous if, by default, we allowed a revival of the Anglo-German antagonism that was so harmful to Europe in the early part of the 20th century.

Giles Radice,
House of Commons,
London SW1A 0AA

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FINANCIAL TIMES

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Wednesday April 27 1994

Eurosuperman step forward

The next president of the European Commission, to be chosen in an obscure political bargaining process in the next two months, will take over as the European Union's chief executive at a crucial juncture in its history. At a time when the US is hesitating over its future commitment to Europe, and the regions east and south of the EU's borders are threatened by instability, it is more vital than ever that the Union be vigorous and outward-looking. A correspondingly open debate is required about the selection process. It is time to set out the essential criteria that should govern the choice of the person who, during the next five years, will represent Europe within the continent and on a wider stage.

The president will take the helm when the EU's objectives are becoming more disparate, more important, and more controversial. Disparate, because the EU is shifting away from an exclusive focus on deepening co-operation among the Twelve as it tries to extend integration northwards and eastwards. Important, because EU membership is the main hope of future prosperity and stability for central and eastern European countries formerly separated by cold war division. Controversial, because many EU's objectives, or at least those spotted among the confusing verbiage of the Maastricht treaty, have aroused widespread public scepticism. Expectations of a sizeable anti-Maastricht vote in the European parliament elections in June reflect not only the effects of recession, but also the perception that those who govern Europe are out of step with the governed.

Exceptional talents

The successful candidate will need to build on the strengths demonstrated by Mr Jacques Delors, the incumbent since 1985. Mr Delors has for the most part mounted an effective synthesis of policies that were practicable and desirable, above all in launching and carrying through the single market process, as well as presiding over reforms of the Community budget.

In three vital areas, the new president will need exceptional talents. First, he (this time round, it seems unlikely to be a she) will need to be a supreme administrator, capable of managing more efficiently a Commission bureaucracy employing 10,000 people and with an annual budget of Ecu70bn. Streamlining the Commission will be a priority after next year's planned enlargement.

Second, in the economic field, the successful candidate must reinforce the EU's support for an open world trade system and policies that avoid subjecting wealth-creating business to unnecessary regulation. The emphasis on labour market flexibility in Mr Delors' white paper last year was a step in the right direction. More strong guidance from the top will be needed if Europe is to catch up its competitive lag with the US and south-east Asia.

Political adroitness

Third, the next leader in Brussels will require political adroitness and vision to foster accord on future priorities among the main member states. A constructive partnership among Germany, France and Britain, in areas ranging from defence and security to monetary policies, has been impeded by the strains of post-cold war upheaval. The opportunity for reaching consensus will, however, improve as the European recession ends. Drawing up an effective post-Maastricht agenda will be easier if the governments emerging from elections in Germany and France during the next 12 months take a fairly relaxed approach over the timetable for monetary union.

Of the three main candidates for the Brussels job currently in the running – Mr Jean-Luc Dehaene from Belgium, Mr Ruud Lubbers from the Netherlands, and the UK's Sir Leon Brittan – none matches perfectly the exacting criteria set out above. All display tough-mindedness, but none can claim to combine broad appeal with visionary thinking. Unburdened by government office, Sir Leon has at least done Europe a favour by running an open campaign for office.

The job of running the Commission is much too important to be determined by a selection procedure with the transparency of a papal election. When the EU decides its next but one Commission president, in 1999, the post should be chosen through an open election process.

Rethinking UK defence

Yesterday's white paper on defence is pure politics. It is a holding operation, designed to get the government through the forthcoming round of local elections, by-elections, and contests for seats in the European parliament. The camouflage is transparent.

The paper intimates, as might be expected, that defence is important. At the same time it affirms that cost savings are being sought in response to the budget cuts announced in November. Mr Malcom Rifkind, the defence secretary, has put on record his understanding that, if economies greater than those asked for are found, the cash released may be diverted to the front line forces. Savings in excess of the £2.3bn agreed with the Treasury may therefore be anticipated.

Much of what may be expected is already evident. Civilians, who are cheaper to employ, may be used for back-room tasks. Stock holding, and the storage of spares, may be almost entirely privatised. Overall levels of support staff may be cut. There may be fewer senior officers, following a management downsizing equivalent to that undertaken in non-military enterprises. Expensive institutions, such as Royal Navy and RAF staff colleges, may be closed. The courses could be transferred to an Army facility. The Royal Navy has recommended that the base at Rosyth in Fife be shut.

Most of the items in the above list are of the sort that governments prefer to avoid when they are about to face the electorate. Job losses and redundancies are never popular. Defenders of Rosyth are already much agitated. The Labour leader, Mr John Smith, has begun to taunt the government for its "piecemeal cuts". He is hitting home. There is little stomach in the Conservative party for further reductions in defence spending. In consequence, nothing specific will be announced until July, when the voting is over.

Overriding fault

The white paper's overriding fault, however, is that it is more likely to set off a debate about candle-ends than a fundamental re-appraisal of Britain's defence policy. Accountancy has its place. Yet it is deep thinking that is required. Mr Smith has called for a full defence review. Serb expansionism has engendered a less dovish mood than is traditional on the Labour benches. Mr Paddy Ashdown, the leader of the Liberal Democrats, confessed on Monday that he had been wrong to advocate sweeping defence cuts after the Berlin wall came down. "It is now clear that we shall see not peace in Europe, but vicious conflicts of a type which we thought we had banished half a century ago", he said.

Confusion reigns

Whether or not Mr Ashdown is right, Europe should certainly prepare itself against the day when it must maintain its own stability. In its present mood the United States can no longer be regarded as the Atlantic community's policeman. President Bush saw the conflict in former Yugoslavia as primarily Europe's business, which it is. President Clinton, a reluctant ally, has resolutely refused to commit US ground forces while the fighting continues. The US remains attached to Nato, but the depth of its commitment may not remain constant.

On the eastern side of the Atlantic, confusion reigns. Britain plans to reduce defence spending to around 3 per cent of gross national product in the late 1990s, as against 5.3 per cent a decade ago. Most European countries, France excepted, plan to spend below Britain's projected level. In the absence of a clear pan-European foreign policy framework no one can tell whether these amounts are sufficient. The necessary framework cannot be constructed while Germany remains uncertain about its future defence role, or while France deludes itself that it can behave as a great power, or while Britain distances itself from the continent.

In short, there is no cohesion of European thought or action, and little underlying agreement on the future presence in Europe of US forces. A proper white paper would set out the foreign policy options and the defence decisions that flow from them. The starting point would be to focus British eyes on both Nato and the European Union. That is more important than the defence of Tory seats in a borough council or two.

Ray of sunshine after winter gloom

Experts detect the green shoots of German economic recovery starting to sprout, says **Quentin Peel**

Chancellor Helmut Kohl and his irrepressibly optimistic economics minister, Mr Günter Rexrodt, insist that Germany's economic springtime has come, after a particularly vicious period of winter frost.

After the sharpest downturn in gross domestic product since the war – a drop of 1.9 per cent last year – the economy is picking up again, they say.

They would of course, wouldn't they? They have to face a testing series of elections this year, culminating in a general election in October, and they need all the good news they can get.

Unfortunately, the one economic fact of life which no one expects to improve in the short term is unemployment, with the grim figure of almost 4m unemployed expected to linger all year.

But yesterday the politicians won the weighty support of five of the country's independent economic research institutes, for their assertion that there will be a slow but steady recovery of 1.5 per cent in all-German gross domestic product this year – about 1 per cent in the west, and a good 7.5 per cent in the devastated east.

Only the staunch neo-Keynesians at Berlin's German Institute for Economic Research (DIW) remain pessimistic in the annual spring review of the institutes.

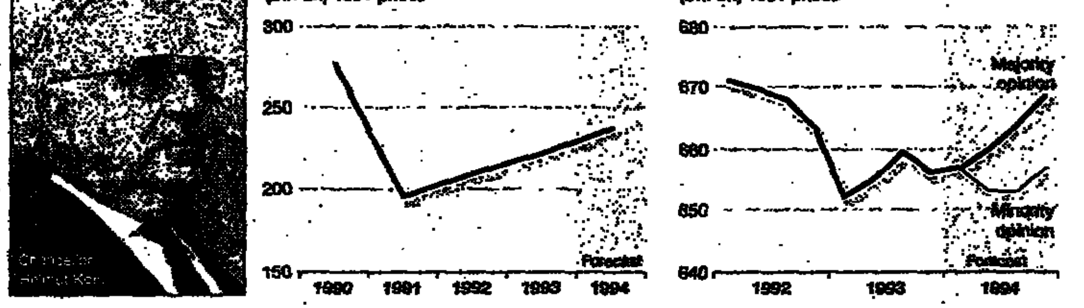
The DIW is convinced that the effect of the recession on domestic consumption – a drop in total real income of no less than 3 per cent – will outweigh any expected recovery in export demand. It argues that far from picking up steadily from this spring, the economy looks set for a summer "double-dip" recession, with no recovery before the second half of the year. Overall, that means zero growth in west Germany, and 0.5 per cent for the economy as a whole.

German economy: signs of a pick-up

The institutes' forecast

	Western Germany			Eastern Germany			Unified Germany		
	1992	1993	1994*	1992	1993	1994*	1992	1993	1994*
GDP**	1.6	-1.9	1.0	9.7	7.1	7.5	2.1	-1.2	1.5
Unemployment (000s)	1,808	2,270	2,600	1,170	1,149	1,220	2,979	3,419	3,820
Unemployment rate (%)	5.8	7.3	8.4	14.8	15.1	16.0	7.7	8.9	9.9
Inflation rate (%)	4.0	3.4	3.0	10.1	7.9	4.9	4.7	4.0	3.0
Public sector deficit (DM bn)							-78.5	-101.5	-100
Current account (DM bn)							-38.4	-36.2	-28.0

* Institutes' estimate ** GDP in 1991 prices, % change over previous year



Source: Federal Statistics Office, Estimates of the Economic Institutes, spring 1994

So who has got it right? A clear majority of government and industry, backed by the analysts of the financial markets, is convinced that the worst is past, except on the unemployment front. On the other side, the trade unions, the opposition Social Democrats, and the DIW, fear that the desire to see green shoots of recovery has overwhelmed perceptions of the reality, that domestic demand remains stubbornly stagnating, and the economy urgently needs an extra stimulus, such as investment subsidies, to pull it out of the trough.

The other big question-mark lies over the revival of the east German economy, now showing signs of recovery from its collapse of 1990 and 1991, when industrial production slumped by two-thirds. The upturn clearly depends above all on the maintenance of huge public and private transfers from west Germany to the east, running at about DM200bn (£80bn) a year.

There is still no sign of consumer spending supporting a self-sustaining recovery, which depends on maintaining the level of investment. The question is whether the initial surge in private sector investment, maintained last year in spite of the western recession, can be kept going at the same rate.

None of the participants are showing signs of over-optimism – in the east or the west. The Federation of German Industry (BDI) and the German Banking Federation warned yesterday against excessive hopes about the prospects for the coming year. The small business federation (ZDH) said it still had no firm evidence from its members that the recession was over. And the German wholesale and export traders (BGA) warned against exaggerated expectations from foreign trade. A growth rate of 1.5 per cent was at the "upper limit" of likely recovery, the BGA said.

Even the five optimistic institutes see only a feeble ray of sunshine in their forecast. "The improvement in the economic situation clearly does not mean that the scene is set for a strong recovery of the west German economy, and for a high level of employment," they said.

Their arguments in favour of recovery are based on three main planks: export performance; significant improvements in business sector profitability thanks to drastic rationalisation measures, with modest pay rises and flexibility in wage contracts and working hours; and continuing relaxation of monetary policy by the German Bundesbank.

As far as exports are concerned, the main hopes lie in the strengthening economic growth both in the US and the south-east Asian markets. Recovery in western Europe, by far the most important market for German products, is clearly lagging behind – interdependent as it is on Germany's own performance.

Optimistic forecasts depend on no further strengthening of the D-Mark against other European currencies, and if possible, a slight weakening against the dollar. The strengthening of the dollar and the yen against the D-Mark over the past year has helped to improve German export competitiveness.

That competitiveness also depends on the success of the rationalisation programmes introduced across most of German industry in cutting the very high costs of domestic production.

Business confidence has grown, as have profit expectations. After a year of drastic losses reported from many of the blue-chip names of German industry, most are forecasting a return to the black in 1994. IBM Deutschland yesterday reported a loss of DM582m for 1993, but predicted profits again this year, and even such a long-term sufferer as Krupp-Hoesch, the steel group, believes it has done enough to break even next time round.

The chemical industry – traditionally first into a recession, and first out of it – seems to be indicating the turn. Hoechst yesterday reported a 10 per cent increase in turnover in the first quarter, and a 18 per cent profits rise to DM506m.

As for the last of the three recovery planks, the continuing relaxation of monetary policy by the Bundesbank may be the one most in question. The institutes yesterday agreed that the central bank could afford to – and should – cut another two percentage points from its short-term rates. This in turn would ensure that the continuing attractions of short-term financial deposits would be outweighed by the recovering profitability of long-term industrial investment, and fuel the recovery, they said.

Financial analysts in Frankfurt are more doubtful. They believe that the downward trend of interest rates is likely to end by the summer, with the signs of economic recovery multiplying – and the Bundesbank still far outside its own monetary corridor for the M3 broad measure of money supply. On just such an assumption, the bond market remains extremely weak.

The stock market, on the other hand, is less influenced by interest rate expectations these days, and more by the expectation of better profits from industry. For the time being, there is a lot of liquidity because of the retreat from the bond market, and the most likely destination seems into shares.

What market observers do not seem to share is the outright pessimism of the DIW. They point out that even if real wages are cut this year, they only constitute about 50 per cent of disposable incomes. The latter include revenues from property, dividends, and transfers from government, all of which are more buoyant. Moreover, German consumers have shown a clear tendency in the past year to reduce their savings to maintain their living standards.

The cuts in working hours could also have another perverse effect: a boost to the black economy, where increasing numbers of Germans work for cash to boost their shrinking official incomes.

"These don't appear in the statistics, but they show up in consumption," said Mr Joachim Fels, international economist at Goldman Sachs in Frankfurt. "That is another reason why we are not so pessimistic."

Whether all that cautious optimism is enough to save Chancellor Kohl's political future in the coming series of local, state and federal elections is another matter. But it shows why he has perked up appreciably on the campaign trail, and started to talk of springtime.

Industry is beginning to benefit from a period of radical restructuring, says **Christopher Parkes**

Corporate convalescence

Mr Edzard Reuter, 66, has seen winter turning to spring often enough not to place too much faith in the appearance of the odd swallow. "We are not succumbing to any illusions despite the large number of positive indicators," the chairman of Daimler-Benz, said recently.

Germany's biggest industrial group was on the road to recovery after a "truly devastating" 1993 when a record DM1.8bn loss obliged the group to cut its dividend for the first time since the second world war, he said. "But our confidence is not based on a somewhat naive hope for an upturn in economic activity," he added.

By his reckoning, German exports would increase slightly this year, but the rate of expansion would lag behind the overall growth in world trade. Germany, he believed, could continue to lose share in its traditional markets.

Mr Reuter's view that Daimler's brightening expectations are due entirely to attempts to raise productivity and competitiveness through its own restructuring efforts, is widely echoed elsewhere in German industry.

The difference in emphasis between business opinion and the more cheerful forecasts from Mr Günter Rexrodt, economics minister, may be explained in several ways.

Industrialists feel proclaiming an end to the bad times now – while costs and jobs are still being savagely axed – could risk resurgent demands from unions which have so far accepted real wage cuts and the loss of most of the jobs created in the late 1980s.

More important, while Mr Rexrodt and his coalition colleagues are facing a hectic election timetable in the next few months, German industry's restructuring agenda stretches ahead, beyond this October's federal poll.

In the short term, company results will benefit because most of the financial provisions for restructuring this year and next have already been set aside. But as Deutsche Bank board director Mr Ulrich Cartellieri has said, nobody should be tempted to draw any false conclusions. Domestic demand was dead, and even if exports rose 5 per cent this year, the increase would not compensate for last year's 10 per cent decline, he noted.

Recent data present a muddy picture which by most expert reckonings shows the German economy bumping sideways along the bottom of recession. The VDA automotive industry association, gloomier than most, recently said car output in the first quarter of this year fell 4 per cent below last year's already miserable levels. The motor industry, Germany's top export earner, is still stuck in the trough of the recession, it added.

However, there has been more encouraging news from the chemicals and engineering branches, the country's two other main industrial motors, which help confirm the impression of an exports-driven crabwise shift in the economy.

Mr Manfred Schneider, president of the VCI chemicals industry association, notes a return to stability on the strength of a rise in first-quarter sales from DM41.9bn to DM42.7bn. Hoechst yesterday confirmed the trend, attributing a 16 per cent increase in first-quarter pre-tax profits to improved business abroad.

The Siemens electrical and engineering group this week reported flat turnover and profits for the first half of the current year (after adjustment for acquisitions), mainly because a 13 per cent rise in foreign sales compensated for a further 9 per cent decline at home.

Brightest of all, Mercedes-Benz yesterday claimed to be beating the general decline in the car market with a 28 per cent rise in first-quarter turnover and increases of between 30 per cent and 46 per cent in registrations in all its main markets.

The patchy pick-up in other European economies, which currently absorb 60 per cent of Germany's industrial exports, and the recovery in the US, which takes a further 10 per cent, appear to have enough pulling power to lift German industry out of its worst slump since 1945.

But the experience of the recession has taught lessons about over-reliance on exports to over-supplied local markets which have far wider implications for the longer term, particularly more globalised manufacturing. Last year's restructuring of domestic pay agreements and deep cuts into over-blown workforces was only one response to Germany's structural difficulties.

A second, potentially far-reaching response is the globalisation of Germany's traditionally home-based manufacturing capacity. Last week alone, BMW, currently building its first full-scale foreign car plant in the US, said it was planning a new factory in Mexico. On the same day Mercedes-Benz signed a joint venture to build E-Class limousines and engines in India.

Attention is also focused on new possibilities in south-east Asia. Siemens chairman Mr Heinrich von Pierer this week pointed out that last year Germany invested a mere DM3.3bn in the region compared with Japan's DM70bn.

As Mr von Pierer noted, if German industry fails to exploit the opportunities in south-east Asia, the world's fastest-growing region, Germany could pay a high economic price.

OBSERVER

One Delors closes . . .

■ Jean-Luc Dehaene is not the most obvious candidate to succeed Jacques Delors as president of the European Commission. Resembling a slimmed-down version of Helmut Kohl, the bespectacled Belgian premier has little international diplomatic experience – and a great face for radio.

Still, the German chancellor has taken a shine to Dehaene, and so people – not least the British Foreign Office – are suddenly taking him seriously for the top executive job in Brussels. UK interest in his chances is all the keener because of Dehaene's enthusiasm for federalism, a bogey word in Britain.

Dehaene wants faster political and economic European integration balanced by greater devolution of power to the regions. It's the same model Belgium has adopted in response to pressure for greater autonomy in Flanders and Wallonia.

The man himself won't say if his hat is in the ring; nor will anyone in the Belgian government. But contingency plans for his departure are forming.

Of course, he may still be blocked by the British and Dutch, who lean more towards Ruud Lubbers. And, in spite of his protestations that he just wants to go home to Dublin, Peter Sutherland, out-going head of the Gatt and a former EU commissioner, will have to get used to hearing his name floated repeatedly as the compromise candidate.

Whither WTO?

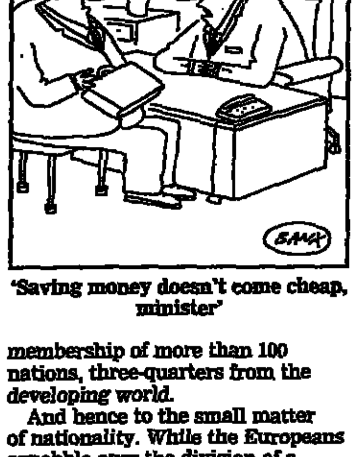
■ Meanwhile, with Sutherland counting himself out of the top slot at the new World Trade Organisation, how about a consolation prize for Sir Leon Brittan, whose chances of securing the EU presidency look slimmer by the day?

Only joking. Brittan's office was yesterday roundly quashing any such flights of fancy and, with his lofty ambitions, Europe's trade commissioner might be right to turn up his nose at Geneva. But son of the Gatt obviously needs to lure some other heavyweight.

Sutherland's happy blend of pugnacity, charm and political skill makes him a hard act to follow; his performance certainly has made it more or less inconceivable that the WTO should go for a trade bureaucrat, however skilful, of the kind that always used to run the Gatt.

As the world's trade policeman, the new organisation will need someone who is not afraid to dress down governments that break fair trade rules. The forum for continuing trade talks will also have to have as its boss a skilled negotiator to deal with an expected membership of more than 100 nations, three-quarters from the developing world.

And hence to the small matter of nationality. While the Europeans squabble over the division of a number of international jobs up for grabs at the moment, they could find the WTO eluding their grasp. The Gatt may traditionally have gone for a European, but this time developing countries will be pushing a candidate of their own – as may Japan.



'Saving money doesn't come cheap, minister'

Lily-livered

■ Has John Major missed another trick? Lunch at Chequers with Chancellor Helmut Kohl surely presented an ideal opportunity to persuade the German leader that scares over BSE are no kind of excuse for a boycott of fine Angus steaks.

But the PM has chickened out, it seems. Kohl will be eating pork.

Inequitable?

■ Ever since the assassination of President William McKinley in 1901, American financial markets have paid tribute to the death of heads of state by shutting up shop.

But in closing down for an entire session to mark the passing of Richard Nixon, the New York Stock Exchange has ruffled a few feathers – and not solely because people feel that Nixon, the only US president to resign in disgrace, might merit something less than the full treatment.

At least two other exchanges, Nasdaq and the Pacific Stock Exchange, unabashedly say they would have preferred to remain open but were forced to follow the Big Board's lead for technical reasons only.

Wall Streeters were also quick to point out the damage that unscheduled closings could inflict on the New York market's efforts to fend off its competitors from overseas.

In deciding to close for the full session, the exchange is indeed affording Nixon an honour denied another president 30 years ago.

In 1964, trading was suspended for only half the day to mark the passing of Herbert Hoover.

But then Hoover just happened to be in the White House in 1929, the year of the mother of all stock market crashes.

Balance sheets

■ While the City of London tries to get serious on the subject of sexual harassment in the dealing room, turn to this month's issue of German business magazine !Forbes for a distinctly more irreverent spin on the gender war.

"Ja bitte!" shouts the cover, claiming that romance in the workplace pushes up creativity, performance and turnover.

Steamy details proved tough to elicit, though. Companies such as Audi stayed primly taciturn, while Hewlett Packard was equally short on specifics.

"We mainly hire graduates at the marriageable age of mid to late 20s. You can imagine the rest," it panted.

The journal, which is in the Burda stable, did manage a dig at a rival. Prominent on the list of bosses who had tied the knot with their secretaries was Bertelsmann chief Reinhard Mohn.

Liz Beckmann was, moreover, "piquantly the wife of one of his employees", the magazine sniped.

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FINANCIAL TIMES
Wednesday April 27 1994

A FINANCIAL TIME for change
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Japan's socialists ignore plea to rejoin coalition

By William Dawkins in Tokyo

Mr Tsutomu Hata, Japan's new prime minister, made no progress yesterday in persuading the Social Democratic party to rejoin his crippled coalition.

The deadlock threatens to prevent his forming a majority government and increases the chance of an early general election. The opposition Liberal Democratic party, encouraged by the break-up of the coalition, called on Mr Hata to relinquish power.

Mr Tomiichi Murayama, SDP chairman, refused to reply to Mr Hata's invitation to discuss the socialists' decision to leave the government coalition, so removing its parliamentary majority.

The SDP, formerly the coalition's largest member, walked out in protest against the formation of a new alliance, called Kaishin, by five conservative groups led by Mr Hata's Japan Renewal party.

Only hours earlier, the SDP had cast a decisive vote for Mr Hata's prime ministerial nomination in parliament. This was "betrayal", said a furious Mr Murayama. The socialists had got the "wrong impression", Mr Hata maintained.

Mr Hata should now step down because he had lost the basis for his nomination as leader, the LDP suggested. "Is it OK to entrust the future of the people to such an insincere government?" asked Mr Yohei Kono, LDP president.

Confusion, collapse and cynicism ....Page 4

Undeterred, Mr Hata said he planned to form a cabinet as soon as possible. JRP officials say he needs to form a government by tomorrow at the latest, as the country then enters a 10-day holiday period.

The SDP has said it would co-operate with the government in passing a budget for the current year. This has been blocked for more than a month by a parliamentary row over former prime minister Morihiro Hosokawa's financial propriety, then by the coalition policy row after Mr Hosokawa's resignation.

The socialists have also offered to co-operate on economic pump-priming measures, but will not support tax reforms, the most important pending legislation.

The socialists' departure was "only natural", the left-leaning Asahi Shimbun newspaper said yesterday. The party had disagreed with its former partners on most issues, ever since the coalition was formed last July after the LDP's first election defeat in 38 years.

The Asahi and other newspapers questioned Mr Hata's ability to exert strong leadership and suggested the formation of Kaishin showed the increased influence of Mr Ichiro Ozawa, the government's strategist.

S Korean carmaker signs deal for German production

By Kevin Done in London

Kia Motors is to become the first South Korean carmaker to assemble passenger vehicles in Europe, in a project to produce up to 30,000 vehicles a year in Germany.

The Korean company announced yesterday it had signed a deal with Karmann, the German automotive engineering and production group, to build its Sportage four wheel drive sports-utility vehicle at the Karmann plant in Osnabrück in northern Germany.

The agreement is a landmark in the development of the world's auto industry and signals the determination of Korean vehicle producers to break into the developed markets of Europe and North America.

The move comes a decade after the Japanese motor industry took its first steps into car assembly in Europe. Four Japanese vehicle makers now assemble cars in Europe, and a fifth has a plant under development.

The Korean motor industry has embarked on rapid overseas expansion. Kia, the second-largest Korean vehicle maker, recently began selling cars in the US under its own brand, after entering many European markets for the first time last year.

Daewoo Motor, the third largest Korean producer, plans to enter the European market in 1995-96 and recently established a technical centre for new vehicle development and engineering in the UK.

Hyundai, the leading Korean vehicle maker, said last month it planned to increase its vehicle production capacity by 60 per cent to 2m units by the year 2000. It plans to build more foreign production sites to reinforce its presence in overseas markets.

Kia said yesterday that production of the Sportage would begin in Osnabrück early next year. Initial output is planned at 15,000 a year, but Kia said it was aiming to double output later to 30,000 a year with both four-door and two-door versions.

In the first phase the Sportage vehicles will be assembled from CKD (completely knocked down) kits shipped from Korea, but Kia said that in the medium term it planned to involve "as many German and European components suppliers as possible".

In the longer term Kia plans to increase the European content of the vehicle to around 60 per cent.

Karmann is a long-established German automotive engineering group, which specialises in low-volume production of niche vehicles for other carmakers. With a total workforce of 7,157 and a turnover last year of DM1.3bn ($760m), it assembles the Volkswagen Golf convertible and Corrado and the Ford Escort convertible, and carries out part of the assembly of the Renault 19 convertible.

THE LEX COLUMN

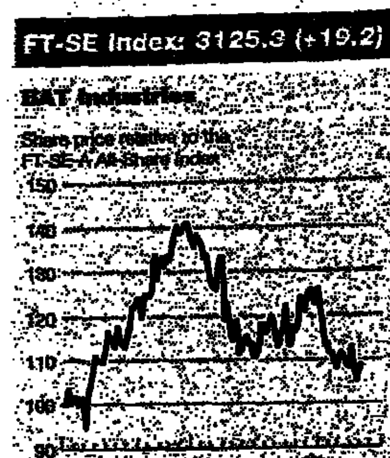
BAT's tobacco habit

At first sight it might seem surprising that BAT Industries is investing $1bn in US tobacco rather than putting its money, literally, in a building society. Yet the acquisition of American Tobacco does not preclude a move in financial services. Gearing of around 50 per cent by the year-end looks perfectly comfortable, given BAT's ability to generate cash. Having made the decision to stay in US tobacco, BAT badly needed to strengthen its hand.

Even after the acquisition, BAT will be fighting from third place behind Philip Morris and RJR Nabisco. But raising its market share to around 18 per cent should bring greater clout. If promised efficiencies in manufacturing and sales are delivered, BAT will also have scope to widen its margins. That would leave it better placed to weather a price war if the market leaders decide to absorb some of the US government's proposed tobacco tax. Despite such commercial logic, though, one might still question the decision to make a strategic investment in a declining market. Faced with similar arguments, American Brands decided to get out.

There are certainly risks. The steady decline in US cigarette sales could easily accelerate, while the one-off impact of the tobacco tax can only be guessed at. BAT's gamble is that an exit multiple of around nine times last year's earnings is cheap enough to compensate. Since the big US tobacco companies are bundled within larger groups, that valuation is difficult to test. But if the additional investment delivers a return in all but the most trying market conditions, the group as a whole must be less risky as a result.

FT-SE Index: 3125.3 (+19.2)



Sears

Sears is no longer a recovery story but a growth story, according to its chief executive, Mr Liam Strong. The snag is that, while cutting costs was fairly easy, increasing sales will not be. Like-for-like sales growth of 3.8 per cent in the year to end-January and 3.6 per cent-plus since then is not especially exciting. Equally, though headline pre-tax profits of £138m look good, the figure is somewhat nearer £125m once non-recurring items are stripped out. The share price, which had been ramped ahead of yesterday's results, took an understandable 7 per cent tumble.

Mr Strong's growth story centres on the group's plan to step up capital expenditure to an annual average of £100m over the next three years, compared with £78m in the most recent year. The money will be invested in two main ways: revitalising flagging old stores such as Adams and building new out-of-town stores such as Sportsworld. Each scheme looks plausible enough on its own but, given Sears' poor investment record, it is questionable whether a steep increase in capital expenditure is in shareholders' interests.

Even if it is, there is little shareholder benefit in Sears' accumulating a cash pile. Despite the higher investment rate, net cash is expected to rise in coming years from the year-end figure of £157m. Mr Strong rightly argues it would be foolish to raise dividends to unsustainable levels. But that should not stop Sears returning cash to shareholders through a special dividend or share buy-back.

Tarmac

Tarmac's management has done a fine job in getting from where it was two years ago to where it is today. But that does not mean it is best placed for tomorrow. Debt has been cut, peripheral businesses sold and the balance sheet restored, thanks to a £215m rights issue. But by starting to rationalise too late, Tarmac has been left with its capital deployed in the wrong places at the wrong time.

Tarmac pulled out an impressive amount of working capital last year. But that partly came from cannibalising its land bank. Capital employed in housing has been cut from £581m in 1990 to £196m last year. The company vows not to repeat past mistakes by chasing volume at the expense of margin. But rival housebuilders are already better placed, having sunk rights issue money into new housing land. The other worry concerns the US, where Tarmac makes profits of just $5m on $724m of assets. Either there is much scope for improving margins, or those assets are overvalued.

Despite these drawbacks, Tarmac boasts great long term promise in quarrying and contracting. Any company making a pre-tax margin of less than 3 per cent on turnover of £2.4bn must have much room for profits growth. But whether Tarmac can catch up with this business cycle is open to doubt. Consensus expectations for 1996 earnings put its shares on a premium forward rating. But by then, the cycle should have turned and building materials stocks should be returning to a discount to the market.

Banco Santander

Banco Santander's bid for Banesto looks all the bolder for being 14 per cent above the next competing bid. The bank clearly believes it is buying a recovery stock and one which makes strategic sense. Strip out unrealised property gains, though, and it is paying nearly two times book value for a purchase that will be initially dilutive. Banco Santander has a record for shrewd expansion. Were it not for that, the natural suspicion would be that ambition has got the better of it.

Since the terms of the deal require Santander to run Banesto as a separate entity, the acquisition offers limited opportunity for cost-savings. The official rationale is that Banesto's branch network will bring the group critical mass in the retail deposit market, though quite how this will add to earnings is not so clear. Santander also hopes to boost Banesto's earnings through bad debt recoveries. That may be easier said than done. After all Banesto has been through, it is hard to believe its problems have been overstated.

The real test will be whether Santander can restore Banesto's ability to generate income from its focus on the domestic market. The comparison with Banco Popular suggests considerable room for improvement on both revenue and costs. If Santander can succeed in re-motivating Banesto's line management and in reviving the confidence of its customer base, its gamble could pay off. And it is still paying less than half Banesto's price before the authorities intervened.

Swiss freeze Schneider funds after 'laundering' accusation

By Ian Rodger in Zurich and David Waller in Frankfurt

A Swiss prosecutor has frozen some SFr200m ($139m) in accounts in Geneva banks connected to the fugitive German property developer, Mr Jürgen Schneider, for whom a Frankfurt court yesterday issued an arrest warrant.

The 59-year-old entrepreneur, who has been missing since early this month, is charged with fraud and falsification of documents in connection with a DM45m ($26m) loan obtained from Deutsche Bank for financing the "Les Facettes" development in the centre of Frankfurt.

Mr Laurent Kasper-Ansermet, a prosecutor in Geneva, said he took the action to freeze Mr Schneider's assets last week following a formal accusation of money laundering made in Geneva "by a Frankfurt bank". The accounts were "directly or indirectly" related to Mr Schneider, and were held at "several Geneva banking institutions".

He would not name the banks, and Swiss bank secrecy law prevents the banks themselves from revealing whether Mr Schneider is a client.

The frozen SFr200m is close to the DM219m sum that Mr Hilmar Kopper, chief executive of Deutsche Bank, on Monday accused Mr Schneider of taking out of his group before fleeing Germany. Mr Kopper claimed Mr Schneider transferred the money during March from time deposit accounts at German institutions to foreign accounts. Mr Hellmut Hartmann, Deutsche Bank press spokesman, refused to confirm yesterday that the money had been frozen at the bank's request.

The Schneider group collapsed on April 15 with debts of more than DM5bn. On Monday Deutsche Bank, owed DM1.2bn, blamed the collapse on systematic fraud. The bank said the direct financial losses would be limited to a few hundred million D-Marks, to be written off in the 1994 accounts.

The Swiss prosecutor responded immediately to the German bank's complaint. Under Swiss law, a prosecutor can act if a victim of a suspected financial crime, even if foreign, submits charges. It is no longer necessary to wait for the customary government-to-government request.

He can also open an inquiry if, as in this case, charges of money laundering are filed. However, the party making the charges cannot have access to the results of the investigation.

Mr Dieter Vogel, spokesman for the German government, said some 250 small construction companies owed a total of DM250m had registered themselves as affected by the collapse. Mr Vogel said Kreditanstalt für Wiederaufbau, the public sector bank specialising in development credit, would provide bridging credits to the companies.

Santander shares down

Continued from Page 1

Banesto is to seek buyers for its industrial shareholdings while Bankers Trust, the US investment bank, has been given the task of selling its press and television interests.

A question hangs over the future of the 50 per cent which Banesto holds directly and indirectly in Portugal's Banco Totta e Açores. Banco Santander last year bought control of another Portuguese bank, Banco de Comercio e Industria.

BAT buys American Tobacco for $1bn cash

Continued from Page 1

purchase. "We don't see this as inhibiting us," he said. "We could easily cope with another £1bn-plus of borrowings as of now."

Referring to a US broker's circular this week suggesting that a BAT-American Brands merger might result in cost savings of $200m, Mr Broughton described that figure as "a bit aggressive". He said: "The figure I have factored in is somewhat short of that, but we're being conservative." BAT said the deal improve its earnings from the outset.

The price represented between nine and ten times American Brands' earnings, it said.

American Brands will retain Gallaher, its international operation which is the largest tobacco company in the UK and Ireland with revenues four times those of American Tobacco.

The group said that the transaction would "remove potential uncertainty" – a reference to anti-smoking pressures it has faced.

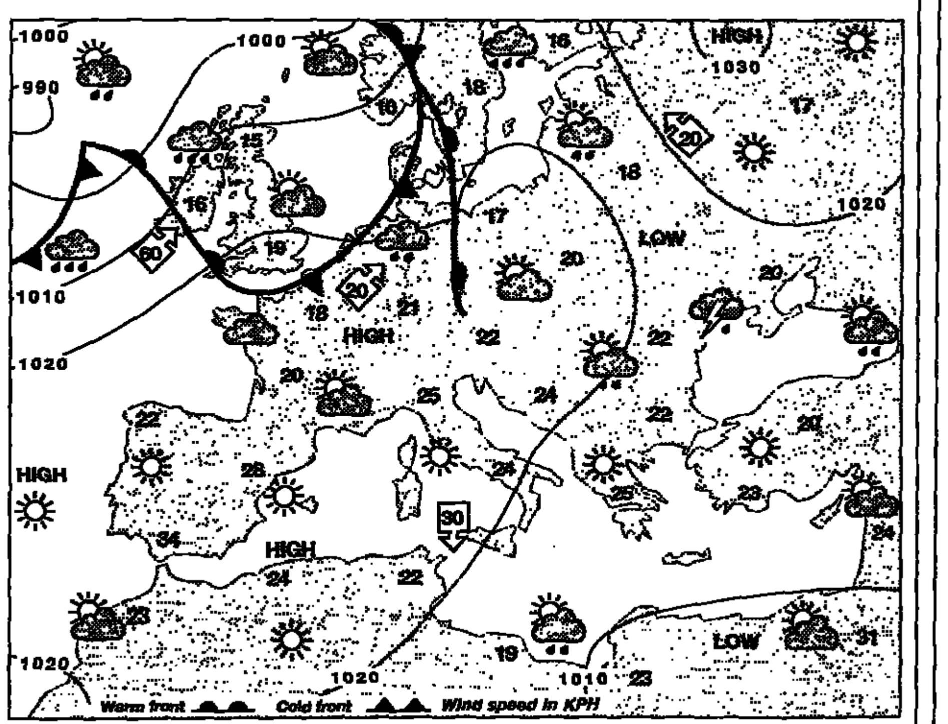
FT WEATHER GUIDE

Europe today

Low pressure between Iceland and the British Isles will cause rain in Ireland, Scotland and western Scandinavia. It will be more stable further to the south-east with only light rain or scattered showers in the Low Countries and northern France. Warm and settled conditions will remain over south-west Europe, Spain and Portugal. Southern France will be sunny and warm. Germany, Poland, the Balkans, the CIS, and Greece will have a lot of cloud with scattered showers, especially in the afternoon. Conditions in the Alps will improve as high pressure builds into the region.

Five-day forecast

South-west Europe will remain warm, sunny and dry. Much of western Europe will become warmer as the weekend approaches. However, the British Isles and the Benelux will remain rather cloudy with a few showers. The eastern Mediterranean will be more settled and slightly warmer. Northern Europe will be cooler and unsettled with rain at times in Scandinavia.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	38
Accra	thund	32
Algiers	sun	26
Amsterdam	shower	18
Athens	fair	24
Atlanta	fair	30
B. Aires	thund	28
B.ham	shower	19
Bangkok	thund	34
Barcelona	fair	22
Beijing	fair	24
Belfast	shower	16
Belgrade	fair	24
Berlin	cloudy	19
Bermuda	fair	25
Bogota	shower	21
Bombay	sun	33
Brussels	shower	19
Budapest	cloudy	23
C.hagen	shower	16
Cairo	sun	31
Cape Town	fair	25
Caracas	fair	31
Cardiff	shower	18
Casablanca	fair	23
Chicago	shower	19
Cologne	shower	19
D' Salaam	shower	30
Dakar	sun	30
Dallas	fair	30
Delhi	sun	38
Dubai	sun	37
Dublin	cloudy	16
Dubrovnik	cloudy	24
Edinburgh	shower	15
Faro	fair	25
Frankfurt	cloudy	21
Geneva	fair	20
Gibraltar	sun	23
Glasgow	shower	15
Hamburg	cloudy	19
Helsinki	shower	17
Hong Kong	cloudy	28
Honolulu	fair	29
Istanbul	fair	20
Jersey	fair	12
Karachi	sun	33
Kuwait	fair	38
L. Angeles	fair	18
Las Palmas	fair	26
Lima	fair	25
Lisbon	fair	26
London	fair	21
Lux.bourg	shower	18
Lyon	fair	23
Madeira	fair	22
Madrid	sun	30
Majorca	sun	24
Malta	sun	20
Manchester	shower	18
Manila	fair	35
Melbourne	cloudy	20
Mexico City	fair	21
Miami	thund	31
Milan	fair	25
Montreal	fair	22
Moscow	fair	18
Munich	shower	19
Nairobi	fair	25
Naples	sun	24
Nassau	shower	30
New York	fair	25
Nice	fair	19
Nicosia	fair	22
Oslo	shower	14
Paris	shower	19
Perth	fair	26
Prague	shower	18
Rangoon	sun	36
Reykjavik	shower	5
Rio	thund	30
Rome	fair	23
S. Frsco	cloudy	16
Seoul	shower	20
Singapore	shower	30
Stockholm	fair	18
Strasbourg	cloudy	21
Sydney	fair	26
Tangier	fair	26
Tel Aviv	sun	26
Tokyo	fair	21
Toronto	shower	28
Vancouver	fair	15
Venice	shower	23
Vienna	shower	22
Warsaw	shower	20
Washington	fair	32
Wellington	shower	16
Winnipeg	fair	6
Zurich	cloudy	20

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FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday April 27 1994

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IN BRIEF

Flat earnings for Eastman Kodak

Eastman Kodak, the US photographic group, yesterday said sales and earnings, excluding special items, were virtually flat in the first three months of the year. Page 17

UCB held back by chemicals
The downturn in chemicals and currency turmoil in Europe led to a 17 per cent profits fall last year at UCB, the Belgian chemical and pharmaceutical group. Page 16

Brewer caught short

Heineken, the Dutch brewer, has called on the help of its subsidiaries around Europe to counter the threat of a shortfall in Dutch beer supplies caused by a six-day-old strike at its two main plants. Page 17

TV network helps entertainment group
Capital Cities/ABC, the US entertainment group, reported a big jump in first quarter profits from $70.5m to $116m, with earnings led by another strong performance from its ABC television network. Page 17

Disney rises to a record
Walt Disney, the US entertainment group, saw a 16 per cent increase in second-quarter profits to a record $248.4m. Meanwhile the chairman of the French stock market watchdog urged Euro Disney's creditors to make their audit of the troubled leisure group's finances available to the public. Page 18

SE-Banken back in the black
A sharp drop in credit losses and big capital gains allowed Skandinaviska Enskilda Banken, the Swedish commercial bank, to return strongly to the black in the first quarter. Page 19

Tarmac helped by UK housebuilding
Tarmac, UK construction and building materials group, announced a sharp recovery in profitability as it took advantage of improving markets in the UK and US. Page 21

Investment trust raises assets
Edinburgh Investment Trust, one of the leading UK investment trusts, increased its net assets per share by 13.7 per cent to 342.1p in the year to March 31. Page 22

New York exchanges to merge
Members of New York's Commodity Exchange and the New York Mercantile Exchange have approved a merger, creating the largest physical commodity exchange in the world. Page 24

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)

Rises			
AG Ind & Verk	598	+	15
BASF	328.5	+	14.5
Degussa	550	+	9
Hoechst	340.5	+	11.3
Holzmann	881	+	31
Falls			
Leifheit	800	–	25

NEW YORK ($)

Rises			
American Brands	33⅞	+	2⅛
Disney	43½	+	1⅛
Philip Morris	53⅞	+	1½
RJR Nabisco	6⅝	+	¼
Falls			
Texaco	64⅛	–	1
UNUM	49½	–	5¼

New York prices at 12.30pm.

PARIS (FFr)

Rises			
Essilor Int	763	+	12
GTM-Entrepose	472	+	12
Imetal	612	+	12
Peugeot	893	+	16
Schneider	452	+	13
Falls			
Docks France	699	–	13

TOKYO (Yen)

Rises			
Fuji Fire	695	+	50
Nippon Denko	474	+	24
Falls			
Galileo	831	–	38
Kaneka	640	–	25
NHK Spring	516	–	22
Okuma Corp	783	–	32

LONDON (Pence)

Rises			
BAT Inds	458½	+	12½
Cosalt	153	+	8
Helical Bar	363	+	14
Jacobs (JI)	58	+	4
Low (Wm)	153	+	8
Morland	482	+	17
Pacer Systems	88	+	5
Palon	280	+	12
Ramco Oil	167	+	8
Sainsbury (J)	382	+	13
Stone Grp	18⅞	+	2½
Suter	197	+	6
Yorks-TyneT TV	313	+	14
Falls			
Air London	68	–	3
Barlows	57	–	3
Brit Bio-Tech	410	–	13
Clyde Blowers	290	–	15
Compass	318	–	13
Dale Elect	69	–	4
Eadie	37	–	3
Herring Baker	54	–	6
Sears	123	–	8½
Sherwood Comp	110	–	5
Tarmac	176	–	8

Eurotunnel creates new class of debt

By Robert Peston in London

Eurotunnel, the company which will operate the Channel tunnel link, is planning to raise around £650m ($972m) from a new class of senior bank debt as part of its £1.3bn refinancing package.

The company and its four leading banks, or agent banks, are holding meetings all over the world to win the requisite 90 per cent support of its 200 bank creditors for the refinancing.

It hopes to have persuaded them by the middle of May, so that it can then launch a rights issue to raise between £600m and £700m of new equity. "The indications are that enough banks will back the proposals", said a banker. "But it's bound to be a close thing."

The rights issue cannot take place before the new bank finance has been raised. The final deadline for securing commitments from the banks to avoid a financial crisis is the beginning of June, according to senior bankers.

Unlike the previous refinancing in 1990, when Eurotunnel's commercial loan facilities were increased from £5bn to £6.8bn, the banks are this time being offered a new class of debt. "It has an enhanced security package and matures earlier", said a banker.

In other words, the new debt would rank ahead of the existing bank loans in a winding-up. It is also scheduled to be repaid in approximately 10 years, compared with the 2010 repayment date of the existing debt.

In a second difference from the 1990 refinancing, the company has recognised that it will not be able to persuade all its banks to contribute to the new loan. In particular, it believes that Japanese banks, who have to date contributed 23 per cent of its £6.8bn commercial loan facilities, do not have sufficient capital to fully participate in the new loan.

So banks' participation in the new credit line will be at their discretion and not a fixed proportion of their existing exposure as was the case in 1990.

A banker said if the existing syndicate of banks was unable to provide the funds, the company would approach banks outside the syndicate, especially US banks, which are under-represented.

Eurotunnel requires the new funds because of the late start of services through the Channel tunnel, which means it will take longer for it to service its existing debt.

At the moment, it is in breach of its loan covenants and is drawing funds under waivers from the banks. A 90 per cent majority of banks also has to agree to change covenants to "cure the waivers", in the words of a banker, prior to the rights issue.

If the refinancing is successfully completed, Eurotunnel will have raised £10bn in debt and equity since 1986, far more than has ever been raised for any private sector infrastructure project.

■ Chairman says deliveries of new model beat forecasts and reach 200,000 ■ Turnover up 28%

Sales of Mercedes-Benz cars increase by 30%

By Christopher Parkes in Frankfurt

Sales of Mercedes-Benz cars rose more than 30 per cent in the first quarter of this year in all the marque's most important markets, Mr Helmut Werner, its chairman, said yesterday.

Deliveries of the new bottom-of-the-range C-Class model had exceeded expectations by reaching almost 200,000 since the launch last summer, he said.

Total turnover at Mercedes, which is the vehicles arm of Daimler-Benz group, rose 28 per cent to DM16.1bn ($9.4bn) in the three months, with passenger vehicles contributing DM9.5bn.

Sales for the full year were likely to rise 7 per cent to exceed DM69bn, and the company was now confident of returning a positive result for 1994. Losses in 1993 totalled DM1.2bn.

Claiming that Mercedes' performance was running counter to the continuing down-trend in the rest of the car industry, Mr Werner said that even the loss-making commercial vehicles business was gaining market share in some sectors.

Car registrations in Germany had risen 41 per cent to 67,300 in the three months ended March, pushing up market share 2.2 points to 8.2 per cent. Full year registrations were expected to top 200,000.

Elsewhere in western Europe numbers rose 46 per cent to 45,000 vehicles. Japan and the US showed increases of more than 30 per cent, he added.

Mr Werner said factory capacity utilisation had been stepped up to 70 per cent from 65 per cent last year, and boasted that the gap between Mercedes' and Japanese manufacturers' productivity was closing rapidly. The so-called "productivity gap" of 35 per cent in 1992, would be down to 15 per cent by the end of this year.

The company expected to boost 1994 car sales to more than 570,000 units after 508,000 last year and planned to be making 850,000 in 1998, Mr Werner said.

Meanwhile, the truck, van and bus business was still "somewhat strained" by large numbers of relatively new vehicles taken off the road and mothballed by their owners during the recession.

However, while the German van market fell 7 per cent in the first quarter, Mercedes registrations in this sector dropped only 1 per cent, Mr Werner said. Sales in other west European countries rose 4 per cent while the overall market fell 10 per cent.

Foreign heavy truck operations, notably Freightliner in the US and Mercedes of Brazil, increased output 17 per cent to 26,500 units.

Mercedes' commercial vehicle operations are undergoing restructuring, and are not expected to break even until next year.

Mr Werner confirmed a further 8,000 jobs were to be cut this year followed by 4,000 next year.

Santander to pay $2bn for Banesto

AP

Emilio Botín, Santander chairman, shows the way to Alfredo Saenz, Banesto chairman, before a joint press conference in Madrid. Santander is paying just over $2bn for a 60 per cent stake, making the takeover is the biggest in Spanish history. Santander will finance the acquisition through a rights issue. Background, Page 16

Tenneco to sell 35% of Case

By Laurie Morse in Chicago and Andrew Baxter in London

Tenneco, the Texas-based industrial company, is to sell 35 per cent of its Case farm and construction equipment division in an initial public offering.

The long-awaited announcement, aimed at reducing Tenneco's exposure to cyclical businesses, comes a day after Varity of the US revealed it is close to selling Massey Ferguson, a big rival to Tenneco's CaseIH brand in world tractor markets. Announcement of the sale of Massey to Atlanta-based Agco could be made today.

Analysts estimate the Case IPO will yield about $500m for Tenneco, which the company plans to use to repay short-term debt and to pursue acquisitions.

Tenneco's stock traded down about $⅝ after the announcement, at $51⅝ per share. Case, Tenneco's largest division, employs 17,000 worldwide. It is the second-largest tractor producer in the US after Deere, and is second to Caterpillar in the manufacture of construction equipment in the US.

In Europe, it is one of the top three players in the tractor market and is a significant producer of construction equipment through Case Poclain of France, of which it owns 98.4 per cent.

Case is enjoying an upsurge in demand from US farm and construction industries. The division is in the middle of a three-year restructuring, and returned to profitability last year. In the first quarter, it earned $81m, nearly matching profits for full-year 1993 of $82m. Case's first-quarter sales were $1bn.

But its European operations continue to make losses. It employs 7,300 in Europe, of which most are in France, the UK and Germany. Last month, however, it announced a restructuring plan for its French and UK operations which will cut 1,500 jobs in three years.

Last year, Case said it would close its tractor plant at Neuss, Germany, in 1996 with the loss of 1,100 jobs. The only European tractor plant would then be at Doncaster in the UK.

Tenneco also reported that first-quarter operating earnings rose to $301m or 67 cents per share on sales of $3.3bn, from year-ago earnings of $275m or 46 cents on sales of $3.2bn.

Shares of the new Case Corporation would be listed on the New York Stock Exchange.

Hoechst underlines optimism with DM506m

By David Waller in Frankfurt

Pre-tax profits at Hoechst, one of Germany's big three chemicals groups, rose 16 per cent in the first three months of the year, climbing by DM70m ($40.9m) to DM506m ($295.9m).

Although the figures served to underscore the growing optimism in the European chemicals sector as the industry pulls out of cyclical recession, Hoechst warned that growth in profits for the full year would be restrained despite the encouraging start to the year.

Hoechst, which suffered a 42 per cent drop in pre-tax profits last year, explained that profits in the first quarter benefited from growth in sales volumes in markets outside Germany as well as the impact of cost-cutting.

But the company said it would have to bear the costs this year of further restructuring. Last year restructuring charges amounted to DM1bn; the group has cut 12,000 jobs in the past three years and plans to cut 8,000 more in 1994 and 1995. It said that the business, however, was likely to improve further and profits would increase in spite of the restructuring costs.

The business environment in general was steadily becoming more favourable to the company's activities, it said, but recovery in Germany was very restrained. The muted optimism contrasts with fellow chemicals group Bayer which said last month that earnings this year would probably increase by 20 per cent.

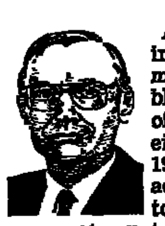
While turnover rose by 10 per cent to DM12bn in the first quarter, a third of the increase arose from the acquisition of Schering's plant protection and pest control activities and a further 2 per cent was due to favourable currency movements. Sales volume increased by 6 per cent but prices continued to come under pressure and fell by 1 per cent against the first-quarter levels of last year.

In Germany, sales fell as a result of pronounced price pressure, but in the rest of western Europe there was a "considerable" increase in sales as a result of higher sales volume. Hoechst Celanese, the group's US subsidiary, increased its sales by 11 per cent to $1.65bn.

Corporate convalescence, Page 13

Barry Riley

American money brings new risks to markets



American investors made more than doubled net purchases of $67.8bn of foreign equities in 1993. That was actually a bigger total than the aggregate net acquisition of non-US stocks by Americans in the whole decade of the 1980s.

Such statistics, just released by the Securities Industry Association, provide dramatic evidence of how the globalisation of portfolio investment is transforming the world's capital markets. No wonder the financial economist Mr Henry Kaufman has warned this week of the inadequacy of regulatory institutions to cope with new risks. Much greater volatility of securities prices will be a consequence, he says.

Of the $67.8bn almost half went into Europe, with much of the rest split between Latin America ($12bn) and Asia ($17bn). Although Hong Kong ($6bn) received a large proportion of the publicity and glamour, Mexico ($5bn) received almost as much capital. The rush of foreign companies to raise capital through $10bn of American Depositary Receipt offerings may have influenced the country allocations, especially towards Latin America: in all, the emerging markets (not including Hong Kong) claimed $14bn of net equity investment. Out of 20 countries only Ireland is listed as the source of net repatriation by US investors.

Americans were also eager buyers of bonds, with a threefold increase to $60.8bn net. Here Europe had much greater dominance at $55bn. Despite all the hyping of Latin American fixed-interest paper it seems that only Mexico (at $6bn) attracted substantial amounts of capital.

As for flows in the reverse direction, foreigners bought $21.5bn of US equities in 1993, after being net sellers in 1992. They were rather bigger buyers of bonds, however, to the tune of more than $90bn. So for all the cross-border rush by US pension funds and mutual funds the overall net purchase of securities by the US was a comparatively trivial $17bn in 1993 (actually only the second year since 1980 that the chronically low-saving Americans have been net exporters of portfolio capital). The statistics do not explain the disappointing performance of the dollar over the past year.

Investors have the right to sell any time a panic grips them

About half of the overseas equity purchases by US investors may be attributable to pension funds, the rest to mutual funds and other shorter-term institutions. As for bonds, pension funds appear to have played a smaller role, with the emphasis instead on mutual funds, hedge funds and other short-term players. In fact the bond outflows were already tailing away sharply in the final quarter and the global bond market tumble in the first quarter of 1994 no doubt reflected attempts to withdraw.

Such cross-border flows are enormous by past standards: in the mid-1980s, year after year, US net purchases of foreign stocks and bonds combined were under $10bn. Growing correlation of market movements is a clear consequence, with European bonds, for instance, tracking the gyrations of dollar bonds even though the cyclical economic background is very different.

Last year's feature was the export from the US of volatility: instead of marginal savings flooding into US equities, which rose only 7 per cent in 1993, they went abroad to Europe, Latin America and Asia, where markets rose by up to 100 per cent (the World ex US Index was up 30 per cent).

Mr Kaufman's worries focus on the potential instability of this rootless investment capital. Bond mutual funds in the US, for instance, increased from $20bn in 1982 to more than $700bn today, with investors shifting from savings deposits to riskier domestic bonds and now towards global bonds. They have the right, in theory anyway, to sell any time a panic grips them. The same applies, in spades, to stock funds, worth another $700bn.

Hence Mr Kaufman's suggestion that 60 to 90 days' withdrawal notice should be phased in for stock and bond mutual funds, starting with new purchases. Investors attracted partly by instant dealing facilities should understand that investments in long-term securities markets are not like instant access accounts.

But they would have to decide whether the pleasure of travelling hopefully was justified by the risk of arriving in the wrong market and being stuck there for three agonising months.

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UCB held back by downturn in chemical sector

By Lionel Barber in Brussels

The downturn in chemicals and currency turmoil in Europe led to a 17 per cent profits fall last year at UCB, the Belgian chemical and pharmaceutical group.

Group pre-tax profits fell to BFr2.03bn ($56.4m) from BFr2.4bn in 1992. However, an exceptional gain of BFr880m, due mainly to the sale of Vel, the group's Belgian chemicals subsidiary, helped lift after-tax profits in 1993 by 7 per cent to BFr2.4bn.

Mr Georges Jacobs, chief executive, expressed optimism about prospects for 1994. Economic recovery in Europe was under way and profits would be "at a good level", he said.

UCB specialises in plastics, pharmaceuticals, films and packaging. In spite of a 3 per cent fall in net sales in 1993 to BFr45.9bn, against BFr 47.31bn, the company created 199 jobs. The workforce at the end of 1993 totalled 8,104.

UCB's profits were helped by the success of Zyrtec, its anti-allergic drug.

Mr Jacobs hoped the drug would win approval by the US Food and Drug Administration for marketing in the US before the end of the year.

Mr Jacobs said UCB was looking for acquisitions in its core businesses, but declined to speculate on the timing. UCB wanted to expand sales outside Europe in fast-growing markets in Thailand and Malaysia, in addition to Japan and Korea.

"We can't just sell, we must produce locally," he said.

UCB is recommending a total net dividend of BFr430 per ordinary share, against the BFr420 paid for 1992.

Compass stock hit by plans to buy US unit

By David Blackwell in London

Shares in Compass Group fell yesterday after the caterer and healthcare company surprised the City of London with news of plans to buy a US contract caterer for $450m.

Compass said it was "in an advanced stage of negotiations in relation to a substantial acquisition".

About half the purchase price would be funded through a rights issue. In London, the shares closed down 13p at 318p.

The target is Canteen Corporation of America, which has an annual turnover of about $1bn.

It is owned by Flagstar, which also owns several restaurant chains including the Denny's hamburger outlets. Flagstar, listed on Nasdaq, incurred losses of $1.68bn in 1993 on turnover of just under $4bn.

City analysts were surprised that Compass had switched its attention to the US from Europe.

Only last July the group bought the airport restaurant and contract catering business of SAS Service Partner, a subsidiary of the Scandinavian airline.

The £71.9m ($108m) acquisition, financed through a six-for-19 rights issue at 420p, helped to lift 1993 turnover by 44 per cent to £497m and pre-tax profits rose by 31 per cent to £41.5m.

One analyst said the speed of the proposed US deal suggested the group was seizing an unexpected opportunity to get into the $80bn US contract catering market. At present, Compass has only minor US exposure in Alaska. Another said the group would have a tough job selling the deal to its shareholders.

Mr Francis Mackay, chief executive, and Mr Roger Matthews, finance director, were flying back to London and were not available for comment.

Sears back in the black with profit of £138m

By Neil Buckley in London

Sears, the UK retailing group, confirmed its place in the ranks of retail recovery stories yesterday with a return to pre-tax profits of £138.3m ($201.91m) after a £47.8m loss last year.

It said trading in the first 11 weeks of the current year was "satisfactory", with like-for-like sales growth – which excludes store openings and closures – ahead of the 3.6 per cent achieved in the second half. The dividend was raised for the first time in 18 months. The shares, however, closed down 8¼p at 128p. Analysts said brokers had been taking profits after the shares had risen sharply in recent weeks.

Last year's loss was after £106.8m of exceptional items, while this year's profit was boosted by £13.9m of profits on the sale of Sears investment in Aspreys, the jewellers, and the realisation of its investment in Satellite Information Services. But underlying trading profits increased 23 per cent from £100.5m to £123.6m.

Group turnover increased 3.8 per cent from £1.93bn to £2.01bn, while the net margin was lifted from 5.2 per cent to 6.2 per cent.

Mr Liam Strong, chief executive, said the reshaping of the group was largely complete and efforts now would be channelled into improving efficiency.

The footwear division recovered from a £14.4m loss to a profit of £33.7m. Like-for-like sales increased 2.9 per cent, although total sales fell from £552.2m to £547.4m after the group closed 88 stores.

Profits at the home shopping division, Freemans, increased from £23.3m to £30.8m, in spite of a fall in sales from £539.9m to £519.5m and a £5.5m charge – the result of closing Dutch mail order operation ter Meulen Post.

The final dividend was lifted 7.2 per cent to 3.68 per share, taking the total to 3.68p – an increase of 5.1 per cent. Earnings were 6.9p per share, after a loss of 4.6p a share last year.

Lex, Page 14; Details, Page 23

Banesto bolsters Banco Santander's ambitions

The bank sees the purchase as providing a balance, report Tom Burns and John Gapper

Mr Emilio Botín, chairman of Banco Santander, was once accused by a shareholder at the bank's annual meeting being too conservative. "There are only two kinds of bankers," he retorted, "conservative bankers and bad bankers."

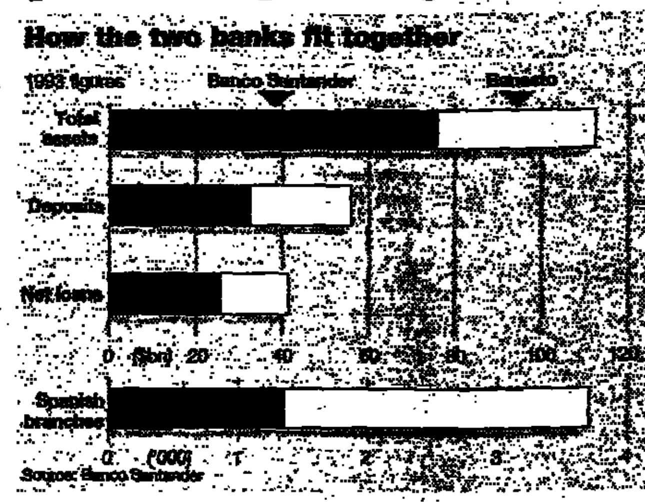
There were many analysts yesterday who wondered whether the third generation Botín to preside over Santander's fortunes might have transformed his family's reputation from one category to the other by paying Pta281bn ($2.05bn) for Banesto.

The purchase comes at a critical time in Santander's quest to become the best diversified Spanish commercial bank. It is seeking to balance income streams equally between domestic and foreign business, and commercial and investment banking.

The bank directors argued yesterday that Banesto would be a critical element in establishing that balance. Yet doubters said its ambition to become Spain's largest bank could have influenced its judgment of Banesto's true value.

Santander paid more than last week's trading value in its bid of Pta762 a share. "Everyone said Banesto's market price was ridiculous, and Botín has gone and paid more than the market," said Mr Derek Bullman, a James Capel analyst.

Mr Gary Weiss, director of the team at Merrill Lynch, the US investment bank, that advised Banco Bilbao Vizcaya on its bid of Pta667 a share, described the disparity between the bids for Banesto as "a bit surprising".



Since 1989, when it broke the Spanish interest rate cartel which prevented competition between banks to gather deposits, Santander has struggled to establish itself alongside rivals such as BBV and Banco Central Hispano in retail banking.

At the same time, it has tried to build up international businesses. It has done so by expanding its network in Latin America, devoting resources to investment banking, and forming alliances with groups such as Royal Bank of Scotland.

Yet its directors argue that it was in danger of achieving its hoped-for balance too quickly by virtue of weakness in Spain. Its income from abroad was 42 per cent of the total last year, and was likely to be 50 per cent this year.

In spite of the drive to gather more deposits through its small network of 1,300 branches, it had raised its market share of deposits, mutual funds and pension funds only from 5.19 per cent in December 1990 to 5.85 per cent this January.

"It took us four years of enormous effort doing whatever was imaginable in terms of aggressiveness and innovation to raise our share by 1 per cent," said Mr Matías Rodríguez Inciarte, Santander chief financial officer.

This is the reason for Santander displaying such interest in Banesto, which despite its problems with lending which led to the replacement of the previous management, has a strong loyalty among customers in Spanish rural areas.

"We had started to ponder whether, if we stayed as we were, too much of our income would come from foreign activities, and this re-establishes the balance. Being a Spanish bank, half our income should come from there," says Mr Inciarte.

Santander and Banesto together will now have a 9.7 per cent market share in deposits as well as 11.9 per cent of branches and 10.2 per cent of loans. Mr Inciarte argues that Banesto can improve deposit taking even further.

"We have our hands full of things that we can do at Banesto to improve the bottom line," he says. He summarises strategy as "savings, savings, savings," arguing that staff must be trained to expand lending without taking excessive risk.

Santander is also likely to transform Banesto decisively into a pure retail bank by shedding the portfolio of equity stakes in industrial companies over the next two years, starting with its investments in media groups.

Nonetheless, Banesto's retail bank will have to perform better to recoup some of the 15 per cent dilution of earnings per share created by the transaction even before the planned Pta89bn rights issue.

Mr Inciarte emphasises the importance he attaches to the repeated re-examination of Banesto's assets over the past two years by the Bank of Spain, and under Mr Alfredo Saez, the BBV executive who will be retained as Banesto chairman.

Apart from trying to sell more products, raising Banesto's net interest margin from 2.7 per cent closer to Santander's 5.7 per cent, the emphasis will be on cutting costs. Some of this may be achieved by combining central functions.

Although an obvious way to achieve big cost cuts would be to merge the banks, Mr Inciarte says this will not happen at least in the short term. However, he says that lending to large companies by the two banks could be merged.

Mr Inciarte expresses optimism that Santander can achieve benefits beyond the minimum projections presented to fund managers yesterday. He describes the return even on the "very conservative" Saenz projections as "very acceptable".

Yet Santander has a task on its hands to persuade others that its judgment was not swayed by the wish to be big. Until Banesto starts to perform like the bank it envisages, Mr Botín's remark may hang uneasily over his head.

Lex, Page 14

Map of Spanish banking redrawn after auction

As an event, the auction of Banco Español de Crédito (Banesto), for many years the biggest name in Spanish banking, came close to matching the country's famous Christmas lottery, known as El Gordo or "the Fat One".

The result, announced after prolonged suspense on Monday night and broadcast live on television and radio, was as unpredictable as the lottery. And there could be no doubt that the prize awarded to Banco Santander, at a price of just over $2bn for a 60 per cent stake, was indeed the Fat One – the largest takeover and restructuring in Spanish history.

Restoring Banesto's balance sheet has required a total of some $3.7bn in recapitalisation and support. With its sale of recently-created new shares to Santander, Spain's Deposit Guarantee Fund reaps a profit of Pta133bn ($971m), reducing by 40 per cent the amount the private banking system and the Bank of Spain stood to lose in the operation.

The price paid by Santander – $255m more than the next-highest bid from Banco Bilbao Vizcaya (BBV) – caused some stupefaction in Madrid's financial community.

But Mr Emilio Botín, Santander chairman, said it was "a unique opportunity". It marked, he said yesterday, "a definitive redrawing of the banking map of Spain".

The shape of Spanish banking has changed radically since the country joined the EU eight years ago. What it had once thought of as big banks – such as Banesto – were dwarfed by the European competition.

The process began in 1987 when Banco de Bilbao tried to take over Banesto. The following four years saw one more attempted merger and two successful mergers among the leading banks, and the fusion of state banking interests into the new Argentaria.

What used to be eight top banks – the private-sector Big Seven and the state's Banco Exterior – have now become four large and one smaller group, Banco Popular.

The new Santander-Banesto group, with about 11 per cent of total deposits in Spanish commercial banks, will, according to Mr Botín, have a retail banking network "in line" with BBV and Banco Central Hispano.

BBV, with clear ambitions of leadership in Spanish banking, has now failed twice to obtain Banesto. But it was never obvious how it would absorb such a large network as Banesto's in addition to its own.

Argentaria, on the other hand, wanted Banesto's branches as much as Santander, especially in small towns and rural areas. But the semi-state bank entered the most timid bid – 25 per cent below Santander's. Its dilemma was that the only way of making a takeover of Banesto politically acceptable was to link it to further privatisation. And the higher the price it paid for Banesto, the harder it would be to ensure a successful share flotation.

With fewer outlets than the other three big groups, Argentaria will now be on the lookout for an alternative acquisition. The final touches have yet to be put to the new map.

David White

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Thai Fuji Finance & Securities Co. Ltd.

US$60,000,000

Transferable Loan Certificate Facility

Arrangers

KEXIM Asia Limited
Hana Bank, Seoul
Tat Lee Bank Limited
L.F.C. Far East Ltd.
Sumitomo Trust Merchant Bank (Singapore) Limited
Bangkok Bank of Commerce, Ltd.

Lead Managers

Hana Bank, Seoul
London Forfaiting Company PLC
Tat Lee Bank Limited
KEXIM Asia Limited
Sumitomo Trust Merchant Bank (Singapore) Limited

Co-Lead Managers

The Arab Investment Company S.A.A.
The CNB Leasing (H.K.) Ltd.
Donghwa Bank
Kyungki Bank Limited
Saehan Merchant Banking Corporation
The Yasuda Trust and Banking Company, Limited Hong Kong Branch
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The Daegu Bank, Ltd. Taegu, Korea
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DongNam Bank
Industrial Bank of Korea, Hong Kong Branch
Pusan Bank
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Daedong Bank
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Managers

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Korea-Japan Finance Company Limited
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Monte dei Paschi di Siena, Singapore Branch
State Bank of India, Hong Kong
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Daiwa Singapore Limited
Indover Asia Limited

Agent

London Forfaiting Asia Limited

April 1994

This announcement appears as a matter of record only

The Bangkok Bank of Commerce Public Company Limited

US$120,000,000

Floating Rate Notes due 1999

Arrangers

The Commercial Bank of Korea, Ltd.
KEXIM Asia Limited
L.F.C. Far East Ltd.
Standard Chartered Asia Limited
Sumitomo Finance (Asia) Limited

Lead Managers

The Commercial Bank of Korea, Ltd.
KEXIM Asia Limited
London Forfaiting Company PLC
Standard Chartered Asia Limited
Sumitomo Finance (Asia) Limited
Donghwa Bank
First Commercial Bank, Singapore Branch
Industrial Bank of Korea, Singapore Branch
Industrial and Commercial Bank of China, Singapore Branch
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Senior Managers

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Bank Bumiputra Malaysia Berhad, Hong Kong Branch (RLB)
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Daiwa Merchant Bank (Singapore) Limited
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LTCB Asia Limited
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Managers

The Export-Import Bank of the Republic of China
Hanil Leasing & Finance (H.K.) Ltd.
The Nikko Securities Co. (Asia) Limited

Reference and Paying Agent

KEXIM Asia Limited

April 1994

مكتبة من الاصل

INTERNATIONAL COMPANIES AND FINANCE

Eastman Kodak turns in flat first-quarter result

By Frank McGurty in New York

Eastman Kodak, the struggling US photographic group, yesterday said sales and earnings, excluding special items, were virtually flat in the first three months of the year.

Wall Street analysts were mostly disappointed with the results, but the share price, up $⅛ at $41⅞, held fairly steady in early trading.

Net income, excluding a $12m provision associated with the early retirement of debt, came in at $94m, or 29 cents a share, well short of analysts' mean estimate of 34 cents.

The 1993 figure was adjusted to reflect the spin-off last year of the company's chemicals division, and the divestment of other operations.

The reorganisation was part of a fresh policy direction initiated by Mr George Fisher, who took over as chief executive last autumn, charged with shaking up the group.

The former Motorola chairman departed from the long-standing wisdom on Wall Street that Kodak must slash costs by adding to the 10,000 job cuts it had announced before his appointment.

Instead, Mr Fisher adopted a long-term approach, stressing stronger revenue growth and faster product development, especially in the emerging field of digital imaging.

In his first full quarter at the helm, sales edged 1 per cent ahead to $3.59bn, prompting unease among some analysts.

"The combination of these weak results and the likelihood of continued weak results in the upcoming quarters will cause people to start to get a little impatient with Mr Fisher," said Mr Alex Henderson, an analyst at Prudential Securities, who described Mr Fisher's approach as maintaining the "status quo".

However, operating earnings from Kodak's three main divisions – imaging, information and healthcare – climbed 26 per cent in the quarter, from $370m to $294m.

"These operating results show that we have continued to make substantial improvements in reducing our cost base," Mr Fisher said.

Sales in the core imaging business improved 6 per cent, offsetting a 3 per cent decline in health, and a flat performance by the information arm.

Cyprus Amax encouraged

By Kenneth Gooding, Mining Correspondent

Cyprus Amax Minerals, the biggest US mining group, yesterday produced "encouraging results" for the first full quarter since it was formed from a merger in November last year.

Earnings were $28m, or 25 cents a share, on revenues of $588m, compared with $12m, or 24 cents, on revenues of $375m.

Mr Milt Ward, chairman, said the group was well on course to make the planned annual cost savings of $120m. About $20m of these came through in the first quarter and all but $10m to $15m would be in place by year-end.

On March 31 Cyprus sold its non-core oil and gas business to Union Pacific Resources for $819m gross or $750m net. In the first quarter these operations contributed $9m after tax.

Mr Ward said Cyprus was in a strong financial position, with a cash balance of $833m at the end of the quarter and long-term debt at only 35.7 per cent of equity.

The coal operations were on track to meet or exceed the 1994 production goal of 80m tons, 15 per cent higher than combined production in 1993. Coal contributed first-quarter earnings of $25m, compared with $6m, which excluded a 1993 pre-tax gain of $23m. Coal was sold for an average of $15.48 a ton, compared with the $14.17 average cost of sales.

Mr Ward said the coal operations were spinning off an annual $300m in cashflow. This was helping to develop the other core businesses, such as copper, where expenditure would be $315m this year.

Cyprus expected to produce about 700m lb of copper this year and more than 750m lb in 1995, up from 632m last year.

Copper, including molybdenum, earned $36m in the quarter, compared with a $6m loss, which included the $25m pre-tax impact of the record rainfalls in Arizona. Copper prices realised averaged 95 cents a lb, 4 cents below the 1993 first quarter.

Four-fold rise in Merloni payout

By Andrew Hill in Milan

Shareholders in Merloni, the Italian white goods company, yesterday awarded themselves a four-fold increase in their ordinary share dividend, following a year in which the group's net profits rose to more than L32bn ($19.9m), compared with L1.6bn in 1992.

The shareholder assembly approved a dividend of L80 per ordinary share, against L20 in 1992, and L100 for each savings share, up from L50.

The company also announced that it had been granted a $100m medium-term credit line by a consortium of Italian and foreign banks, headed by Banca di Roma, Swiss Bank Corporation, and Union Bank of Switzerland.

It said that in the first quarter of 1994, consolidated turnover and operating margins had grown by 20 per cent, compared with the same period last year. In 1993, turnover increased by 34 per cent to L1,755bn from L1,306bn.

Merloni's recovery, heralded in February, was based on higher margins, partly due to the lower foreign exchange rate of the lira and the one-off effect on 1992 earnings of a L24bn foreign exchange loss.

Big jump in profits at Capital Cities/ABC

By Patrick Harverson in New York

Capital Cities/ABC, the US entertainment group, yesterday reported a big jump in first-quarter profits to $116m, with earnings led by another strong performance from its ABC television network. A year ago, the group recorded profits of $70.5m.

The comparison with last year's first quarter, however, is complicated by three factors. The latest period included six more days than the first three months of 1993; earnings from ABC's broadcast of the Academy Awards were included in the latest quarter, but a year ago they were included in the second quarter; and in the first quarter of 1993, Cap Cities took a $12.1m extraordinary charge to cover early debt redemptions.

Even with those three qualifications, the group put in an impressive performance during the first three months of this year, due primarily to a 54 per cent increase in operating income from its broadcasting business.

Earnings from the ABC network and affiliated local television stations rose sharply, helped by strong growth in advertising sales.

Cable and international operation earnings were also buoyant, especially at the all-sports network, ESPN.

Other group segments that reported earnings growth included the radio and publishing divisions, where the newspaper operations posted a significantly stronger performance than a year ago.

Cap Cities' results delighted investors, and its shares rose $21¼ to $718½ on the New York Stock Exchange.

● The Washington Post said newspaper division revenue fell 2 per cent in the first quarter from the comparable period last year, Reuter reports from Washington.

The division suffered from lower advertising revenues at The Washington Post, while Newsweek felt the impact of a soft market for national advertising.

Akzo Nobel off to strong start

By Ronald van de Krol in Amsterdam

Economic recovery in Europe helped push up first-quarter net profit at Akzo Nobel, the Dutch-based chemicals group, by 30 per cent to Fl 281m ($148m), from Fl 216m a year ago.

The company, formed after Akzo acquired Nobel of Sweden last year, said the improvement, which was almost across the board, underlined what it described as a "good start" to the fortunes of the merged group.

A 9 per cent sales increase in the first three months, to Fl 5.78bn, was attributed to higher sales volumes, increased prices and positive currency movements. A continuing programme of cost-cutting enabled Akzo Nobel to limit the rise in operating costs to Fl 5.3bn, an increase of 7.2 per cent.

The company's shares, one of the strongest performers on the Amsterdam stock exchange in recent months, ended the day up Fl 6.40 at Fl 226.90, a rise of nearly 3 per cent compared with Monday's close.

Until the first quarter, Akzo Nobel had relied largely on better results in North America to compensate for the weakness in European markets. In February, it predicted that the recession in Europe had bottomed out.

The economic turnround in Europe was reflected in coatings, where all of Akzo Nobel's European business units posted higher results than a year ago. At the same time, coatings operations in North America continued their upward trend. Overall, the coatings sector saw operating profit rise to Fl 92m in the first quarter of 1994 from a pro-forma Fl 61m in the same period of 1993.

Akzo Nobel, the world's largest salt producer, also benefited from bad winter weather in the US and Europe, which boosted demand for its road salt. Besides salt, all other business units in the chemicals sector put in improved performances, enabling operating profit in chemicals to rise to Fl 199m from Fl 149m in 1993.

Operating profit for pharmaceuticals rose by 19 per cent to Fl 161m from Fl 135m.

In fibres, Akzo Nobel reported higher sales volumes. However, the gain was largely offset by lower average selling prices. Cost-cutting allowed it to post an operating profit of Fl 28m in the sector – traditionally its most difficult – compared with Fl 14m a year earlier.

Strike-hit Heineken has to import beer

By Ronald van de Krol

Heineken, the Dutch brewer, yesterday called on the help of its subsidiaries around Europe to counter the threat of a shortfall in Dutch beer supplies caused by a six-day strike at its two main plants in the Netherlands.

The two breweries, in Zoeterwoude and Den Bosch, produce 11m hectolitres of beer a year, roughly a fifth of Heineken's worldwide output. The group operates more than 90 breweries in 50 countries.

Supplies of beer were due to start arriving last night from subsidiaries in European countries which produce the group's two flagship brands, Heineken and Amstel.

Heineken declined to say which countries would supply the beer. Heineken and Amstel are brewed by several subsidiaries from Ireland to Greece.

In the UK, Whitbread brews Heineken under licence from the Dutch company.

Heineken acknowledged the imports were "curious" for the company, which is the world's second biggest brewer but the largest exporter of beer.

Heineken has a commanding 50 per cent share of the Dutch beer market, which is poised for one of the biggest days of the year on Saturday when the country celebrates the queen's birthday at street fairs and outdoor carnivals.

Exports to the US, where Heineken is the best-selling imported beer, were not immediately threatened because the company has a week's supply in reserve at the Dutch port of Rotterdam.

The strike, over pay and conditions, has divided Dutch unions. Two unions have accepted a deal with the company but the country's largest union federation has rejected it, and its members have blocked the exits of the two breweries.

Hersant sells stake in Hungarian newspaper

By Nicholas Denton in Budapest

Hersant, France's largest newspaper publisher, is abandoning its investment in the Hungarian national daily newspaper, Magyar Nemzet.

Socpresse, part of the French group, is selling its 92 per cent stake in Magyar Nemzet, Hungary's fourth-largest national newspaper, to Hirlapkiado Vallalat, the state-owned media holding company.

The parties to the deal refused to disclose the purchase price but it is understood Hersant took a loss of FFr40m ($6.9m) on its investment.

The group has been an aggressive buyer of provincial titles in France and newspapers in other European countries, but its acquisitions have a mixed record.

Hersant's 14 newspapers in Poland, including leading national daily Rzeczpospolita, have been generally profitable; but Diario 16, the Madrid daily, has suffered financial difficulties, as has Magyar Nemzet.

Magyar Nemzet executives blame the publication's losses on Hungary's overcrowded national newspaper market, in which 14 titles serve a population of 10m.

News Corporation, the media group controlled by Mr Rupert Murdoch, paid $4m in 1990 for 50 per cent stakes in daily Mai Nap and weekly Reform. Last year News exercised an option to sell its investment back to the Hungarian partners.

Analysts believe only one national is clearly profitable – Nepszabadsag, the largest circulation newspaper, controlled by Germany's Bertelsmann.

1993 was the most important year in the history of Independent Newspapers. The company doubled its market capitalisation, dramatically increased the scale of its cable business, achieved its profit targets in Australia and continued to increase total market share of advertising and circulation in Ireland...

One statistic will be of particular interest to our shareholders and that is that IR£1,000 invested in Independent Newspapers in March 1973 would, together with dividends being reinvested, be today worth IR£154,000, or a compound annual growth rate of 28%. No other major Irish company can compare with this growth during that period. The task for the work force and the Board over the next five years is to rival this growth and in that regard a great deal will depend on our prospects overseas, particularly in Australia and South Africa and in the United Kingdom.

Dr A.J.F. O'Reilly
Chairman

Independent Newspapers Around the World

OPERATING HIGHLIGHTS

Ireland
- Ireland's largest newspaper publishing Group.
- Increased contribution from publishing operations.
- Share of national newspapers' advertising revenue increased.
- Aggregate cable and MDS customer base increases 57% to 103,182 (Princes Holdings – 50% owned).

South Africa
- Agreement to acquire 31% interest in Argus Newspapers, the largest newspaper publisher in South Africa (subsequent to year end).

France
- Reasonable trading for Sirocco, ranked number two in its outdoor advertising market.
- Growth in sales of street furniture and municipal services.

Mexico
- Expansion in billboard advertising by Avisa (40% owned).

United Kingdom
- Significant improvement at GLEN regional newspapers.
- Improved trading at Commuter Publishing Partnership.
- Satisfactory first year for Buspak UK (50% owned).
- Purchase of 29.99% interest in Newspaper Publishing, London – publisher of "The Independent" and "The Independent on Sunday" (subsequent to year end).
- Acquisition of 75.1% interest in Capital Newspapers of London, with an option to purchase the remaining 24.9% (subsequent to year end).

Australia
- Australian Provincial Newspapers pre-tax profit increases 40% to A$28.2 million.
- Group's indirect holding in APN increased to 25%.
- Significant trading improvement at Buspak, Australia's largest mobile outdoor advertising company.

FINANCIAL HIGHLIGHTS

	1993 IR£000	1992 IR£000	
Operating Profit before Exceptional Items	29,191	23,437	+25%
Profit before Taxation	29,023	16,021	+81%
Earnings per Share*	30.54p	19.44p	+57%
Dividends per Share*	11.00p	9.30p	+18%
Shareholders' Funds	185,563	143,718	+29%

*Adjusted for Capitalisation Issues.

INDEPENDENT NEWSPAPERS, PLC

Full financial statements for the year ended 31 December 1993 will be delivered to the Registrar of Companies and carry an unqualified Audit Report. Copies of the Report may be obtained from The Secretary, Independent Newspapers, PLC, 1-2 Upper Hatch Street, Dublin 2.

These securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States except in accordance with the resale restrictions applicable thereto. These securities having been previously sold, this announcement appears as a matter of record only.

SAMSUNG ELECTRONICS

Samsung Electronics Co., Ltd.

(Incorporated in the Republic of Korea with limited liability)

U.S. $100,000,000

2,173,912 Rule 144A Global Depositary Shares
Representing 1,086,956 Shares of Non-Voting Stock

Global Coordinator
Goldman, Sachs & Co.

1,456,522 Global Depositary Shares

This portion of the offering has been sold outside the United States by the undersigned.

Asian Offering
Goldman Sachs (Asia) Limited

Samsung Securities Co., Ltd. — Ssangyong Investment & Securities Co., Ltd.
Daiwa Europe Limited — Merrill Lynch International Limited
Barclays de Zoete Wedd Limited — Carr Indosuez Asia Limited
Korea Development Securities Co., Ltd. — Deutsche Bank Capital Markets (Asia) Limited
S.G.Warburg Securities — Yamaichi International (Europe) Limited

European and Rest of the World Offering
Goldman Sachs International

Samsung Securities Co., Ltd. — Ssangyong Securities Europe Limited
Barclays de Zoete Wedd Limited — UBS Limited
Korea Development Securities Co., Ltd. — Sunkyong Securities Limited
Tong Yang Securities Co., Ltd. — Bayerische Landesbank Girozentrale
Paribas Capital Markets — Swiss Bank Corporation

717,390 Global Depositary Shares

This portion of the offering has been sold in the United States by the undersigned in private offerings that included sales pursuant to Rule 144A under the Securities Act of 1933.

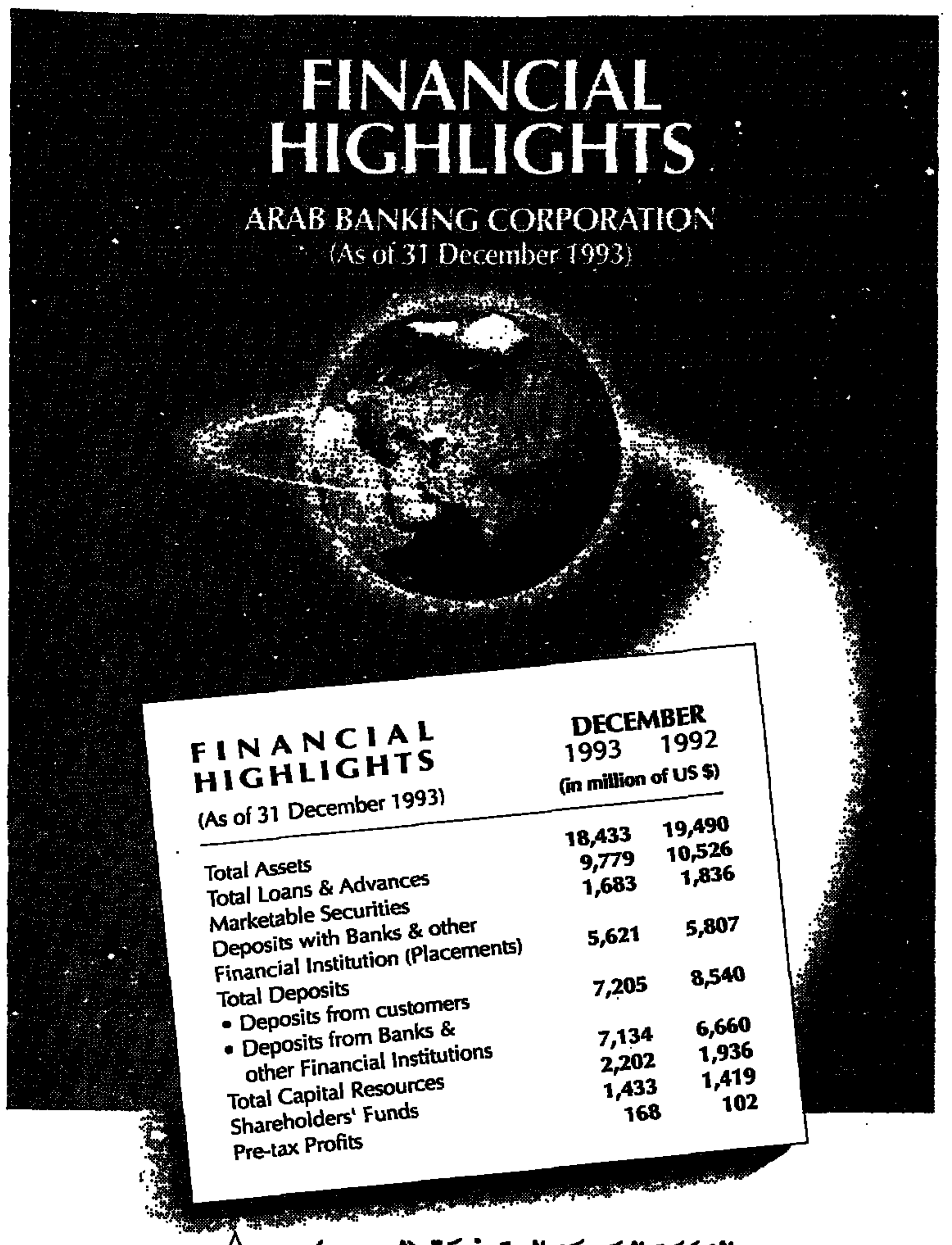
U.S. Offering
Goldman, Sachs & Co.
Lehman Brothers
Merrill Lynch & Co.
Salomon Brothers Inc
Ssangyong Securities America Inc.
Tong Yang Securities (America), Inc.

March 1994

FINANCIAL HIGHLIGHTS

ARAB BANKING CORPORATION

(As of 31 December 1993)



FINANCIAL HIGHLIGHTS (As of 31 December 1993)	DECEMBER 1993	DECEMBER 1992
	(in million of US $)	
Total Assets	18,433	19,490
Total Loans & Advances	9,779	10,526
Marketable Securities	1,683	1,836
Deposits with Banks & other Financial Institution (Placements)	5,621	5,807
Total Deposits	7,205	8,540
• Deposits from customers		
• Deposits from Banks & other Financial Institutions	7,134	6,660
Total Capital Resources	2,202	1,936
Shareholders' Funds	1,433	1,419
Pre-tax Profits	168	102

المؤسسة العربية المصرفية (ش.م.ب)

ARAB BANKING CORPORATION (B.S.C.)

H.O.: Arab Banking Corporation (BSC). The ABC Tower, Diplomatic Area, P.O. Box 5698, Manama, Bahrain
Tel: (973) 532235, Tlx: 9432 ABC BAH BN Fax:(973) 533163/533062, C.R.No. 10299

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ASTRA

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of AB Astra will be held at 6.00 p.m. on Tuesday 17th May 1994 at the Stockholm International Fairs and Congress Centre, Älvsjö.

NOTICE OF ATTENDANCE

Shareholders recorded in the Swedish Securities Register (VPC AB) on Friday 6th May 1994 will be eligible to participate in the Annual General Meeting. Shareholders wishing to attend must notify the Company not later than 12.00 p.m. Swedish time on Friday 13th May 1994, by mail at the following address: Board of Directors, AB Astra, S-151 85 Södertälje, Sweden, or by telephone int. +46-8-553 260 00.

Shareholders whose shares are registered in nominee names must, if they wish to participate in the Meeting, be temporarily recorded in the shareholders' register at VPC AB. Notice must be given to the nominee in ample time before 6th May 1994.

A shareholder may attend and vote at the Meeting in person or by proxy. However, in accordance with Swedish practice, the Company does not send forms of proxy to its shareholders. Shareholders wishing to vote by proxy should submit their own forms of proxy to the Company.

AGENDA

1. Matters which, in accordance with the articles of association, are to be dealt with at annual general meetings of the shareholders, including presentation of the annual report and auditor's report as well as the consolidated financial statements and auditor's report on the Group; resolutions regarding the adoption of the income statement and balance sheet as well as the consolidated income statement and consolidated balance sheet; appropriations with regards to the Company's profits or losses according to the adopted balance sheet; discharge from liability of the members of the Board of Directors and the President; and election of the board members and auditors.

2. The proposal by the Board of Directors that a resolution be adopted amending the articles of association which, in its significant portions, would result in the following:

- the change of the Company name in § 1 to "Astra Aktiebolag";
- the amendment of § 2 to read as follows:
  "The object of the Company shall be to engage in the manufacture of, and trade in, products for health care and medical care; to conduct financial activities; to own and manage real and personal property, including stocks and shares in other companies; and to conduct other activities which are compatible with the above-mentioned business activities. The Company shall, however, not engage in such activities as are set forth in the Banking Business Act or the Credit Market Companies Act."
- the deletion of § 6, paragraph 3, and of § 7 in its entirety;
- the re-numbering of § 8 of the present articles of association to § 7 and the amendment of said section to read as follows:
  "Two auditors and two deputy auditors or one or two certified accounting firms shall be appointed at the annual general meeting of shareholders to hold office until the close of the annual general meeting of shareholders immediately following."
- the amendment of § 8 to include the following provision:
  "The Chairman of the Board of Directors or a person appointed by the Board of Directors shall convene the general meeting of the shareholders and shall preside over the meeting until a chairman of the meeting has been elected."
- the amendment of § 9 regarding the locations for the general meetings of shareholders by the addition of Gothenburg and Malmö and the deletion of Hässleholm and Umeå;
- the amendment of § 10 to read as follows:
  "Notice to shareholders of general meetings of the shareholders shall be given either by letter posted in the public postal service or by publication in a daily Stockholm newspaper, no earlier than four weeks and no later than two weeks prior to the meeting."
- the amendment of § 11 to read as follows:
  "In order to be elegible to participate in the proceedings of a general meeting of the shareholders, shareholders must be included in the share register at least ten days prior to the meeting and must register with the Company no later than the time and date set forth in the notice of shareholders' meeting. The latter date may not be a Sunday or other public holiday, Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve nor may such date be prior to the fifth day preceding the meeting."

DIVIDEND

The Board proposes Friday 20th May 1994 as the record date for entitlement to the dividend proposed in respect of 1993. Subject to approval of the Board's proposal by the Meeting, dividends are expected to be mailed by VPC AB on Monday 30th May 1994.

Södertälje, Sweden, April 1994

BOARD OF DIRECTORS

AB ASTRA

The Board of Directors has received the following proposal: Re-election of Bo Berggren, Marcus Wallenberg, Claes Dahlbäck, Henry Danielsson, Harry Faulkner, Tony Hagström, Håkan Mogren and Tom Wachtmeister, and the election of Lars Ramqvist, Ph.D., President and Chief Executive Officer, Telefonaktiebolaget L M Ericsson. The proposal is supported by shareholders who, together, represent approximately 25% of all of the outstanding votes in the Company.

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INTERNATIONAL COMPANIES AND FINANCE

Income rises 16% at Walt Disney

By Patrick Harverson in New York

Walt Disney, the US entertainment group, yesterday reported a 16 per cent increase in second-quarter profits to a record $248.4m. Growth in income from animated films and consumer products offset disappointing contributions from its live-action films and theme parks.

The strong earnings performance - achieved on record revenues of $2.27bn, up from $2.03bn - will be a welcome lift for Disney, which has suffered several setbacks recently. These have included the financial crisis at its 49 per cent-owned Euro Disney theme park outside Paris, opposition to its planned $700m historical theme park in Virginia, and the death in a helicopter accident of Mr Frank Wells, the group's popular and highly-regarded president.

Michael Eisner: pleased with growth in earnings

Disney said the financial impact of its investment in Euro Disney was not included in the latest quarter's results, which covered the three-month period ending March 31.

Mr Michael Eisner, chairman and chief executive, said he was pleased with the growth in earnings from classic and new animated films, which helped boost revenues from the filmed entertainment division 19 per cent to $1.1bn.

Sales of home videos of *The Jungle Book* and *Bambi*, and its newer film *The Fox and the Hound*, were strong, and compensated for the weak performance of its new live-action films.

Revenues from the theme parks and resorts division increased only 3 per cent to $802.4m. Disney said park attendance fell primarily because of a decline in foreign tourists. The January earthquake in southern California, home of Disneyland, also led to lower attendance.

The group's consumer products division reported 15 per cent growth in revenues to $368.8m, due to the continued strength of the European and Asian licensing and publishing businesses.

A deal to restructure Euro Disney's debt is being reviewed by the theme park's lenders, under which Disney will inject another $750m capital. Last year, Disney took a $350m write-down to cover its investment in Euro Disney.

Disney shares rose $1¼ to $43¾ on the New York Stock Exchange.

Publication of Euro Disney audit urged

By Alice Rawsthorn in Paris

The chairman of the French stock market watchdog yesterday urged Euro Disney's creditors to make public their audit of the troubled leisure group's finances.

Mr Jean Saint-Geours, chairman of the Commission des Opérations de Bourse (COB), said it was difficult to assess the fairness of the terms of Euro Disney's FFr13bn ($2bn) emergency financial restructuring without the detailed information contained in the audit, which was commissioned by creditors from KPMG Peat Marwick, the accountancy group.

The COB stressed, however, that Mr Saint-Geours was not making an official request for the audit to be made public.

However, it is investigating the dramatic movements in Euro Disney's share price in the approach to the restructuring negotiations, to check whether there were any leaks of information.

Euro Disney was one of 85 cases investigated last year by the COB. It handed 35 dossiers over to the French courts for further investigation during the year, against 24 in 1992.

One of France's biggest insider trading scandals yesterday opened a new chapter as the appeal began in the Péchiney affair, a case concerning illegal dealing in the shares of the state-controlled aluminium and packaging group on the eve of a large US acquisition.

PepsiCo held to 9% growth

By Richard Tomkins in New York

Poor results from PepsiCo's drinks and restaurants divisions led to a slowdown in earnings growth from 12 per cent last year to 9 per cent in this year's first quarter, the company reported yesterday.

Net income rose to $282.8m from $260.4m before a $55.3m charge for accounting changes, on turnover up 13 per cent at $5.73bn.

Earnings per share, excluding accounting changes, were 9 per cent ahead at 35 cents.

On the drinks side, worldwide revenues increased by 8 per cent to $1.8bn, but operating profits fell by 2 per cent to $177.1m.

International growth in drinks profits was driven by strong concentrate volume, improved results in Spain and an initial shipment of Stolichnaya vodka to Grand Metropolitan under a new distribution agreement.

Worldwide restaurant sales grew 14 per cent to $2.2bn, but this division saw a 14 per cent fall in operating profits to $125.3m. Pizza Hut suffered an 18 per cent decline, hit by lower profits in the US because of price competition and lower sales, while price competition and higher chicken costs cut Kentucky Fried Chicken profits 23 per cent.

The best performance came from snack foods, where sales rose by 16 per cent to $1.7bn and operating profits rose by 24 per cent to $270.5m. New products and strong volume growth in the US and overseas helped produce the gains.

Sun and Fujitsu expand links

By Louise Kehoe in San Francisco and Michiyo Nakamoto in Tokyo

Sun Microsystems, the world leader in computer workstations, and Fujitsu, Japan's largest computer manufacturer, are to expand their long-standing microprocessor technology partnership to include a co-ordinated approach to technology development.

The companies plan to invest more than $500m over the next five years in the design and development of new Sparc microprocessors and related technologies.

Sparc is Sun Microsystems' reduced instruction set computing (Risc) technology, which had until recently enabled the workstation company to produce workstations that outperform those of rivals, including Hewlett-Packard, Digital Equipment and International Business Machines.

Recently, however, Sun's competitors have leap-frogged Sparc performance. In an effort to regain leadership, Sun and Fujitsu will now work together to develop more advanced versions of Sparc.

Fujitsu and Sun Microsystems also agreed to a broad cross-licensing of patent rights, and to ensure compatibility between the computer products that each company develops based on Sparc technology. Fujitsu has also extended its commitment to resell, distribute and service Sun products in Japan.

Freeport back in the black

By Kenneth Gooding, Mining Correspondent

Freeport-McMoRan, one of the world's biggest producers of copper, gold, sulphur and phosphate fertiliser, moved back into the black in the first quarter. Net income, after gains and charges, was $12.37m, or 9 cents a share, against a loss of $55.35m or 39 cents last time.

The group was helped by higher sales volumes, a copper price protection programme, higher gold prices, lower cash production costs and improved phosphate fertiliser volumes and prices. Revenues rose to $449.6m from $300.8m.

Freeport sold 155.7m lb of copper and 201,300 troy ounces of gold in the quarter, compared with 138.1m lbs and 140,300 ounces. It expects to produce 720m lbs of copper and 800,000 ounces of gold in 1994 as a whole.

Nearly all copper production is covered by a programme that ensures a minimum of 90 cents a lb, compared with yesterday's London Metal Exchange three-month price of 87 cents. Lower ore grades pushed up copper cash production costs from 50.2 cents a lb to 59.4 cents.

Fertiliser sales rose from 495,000 short tons to 534,000 tons, while sulphur sales climbed from 465,000 long tons to 516,000 tons. Oil and gas sales were up from 433,000 barrels to 823,000 barrels.

Northern Telecom posts $88m

Northern Telecom, the Canadian telecommunications equipment supplier, expects to see year-on-year profit gains in 1994 and a return to more traditional profit levels in 1995, said Mr Jean Monty, president and chief executive, Reuter reports from Toronto.

The group, 52 per cent-owned by BCE of Canada, posted a net profit of US$88m, or 35 cents a share, in the first quarter, after a $72m, or 29 cents a share, gain on the sale of its Saskatoon, Saskatchewan, fibre-optic plant. This compares with $76m, or 30 cents a share, in the first quarter of 1993.

Mr Monty had previously warned that Northern would suffer an operating loss in the first quarter, but the company produced an operating profit of $52m against operating earnings of $165m in the year-ago period.

"We are pleased with first-quarter operating performance, as we had previously anticipated an operating loss.

"Higher revenue growth towards the end of the quarter in certain product and geographical markets combined with higher-than-anticipated margins contributed to the positive results," Mr Monty said.

"We are also encouraged with our progress on the restructuring activities To date, we have accomplished or announced reductions in line with our targeted cost improvement programme."

He said more than US$1bn in cash proceeds from asset sales would improve Northern's financial flexibility, but added that there was still a lot of work to do. Recent international contracts, particularly in Colombia and China, provided a positive reinforcement for Northern's long-term prospects.

This announcement appears as a matter of record only.

Esc. 16,340,403,000

Espírito Santo Development Capital Investors Limited

A company formed to make development capital investments in the Republic of Portugal, sponsored by

Banco ESSI, S.A.

The undersigned acted as financial advisor and arranged the private placement of the participating redeemable preference shares.

Merrill Lynch & Co.

March 1, 1994

صكرا من الاجل

INTERNATIONAL COMPANIES AND FINANCE

SE-Banken bounces back to profit

By Christopher Brown-Humes in Stockholm

A sharp drop in credit losses and big capital gains allowed Skandinaviska Enskilda Banken, the leading Swedish commercial bank, to return strongly to the black in the first quarter. It posted a SKr1.38bn ($175m) profit, compared with a SKr808m loss in the corresponding 1993 period.

The performance puts the seal on a recovery which has taken the bank from the brink of disaster in early 1993, when it was forced to seek government aid, to a position of considerable financial strength a year later.

The group was able last August to withdraw its request for state assistance, largely because of lower interest rates, and recapitalise through a SKr5.3bn rights issue.

The main influence on the first-quarter figures was a 46 per cent drop in credit losses to SKr1.55bn.

However, the recovery was assisted by SKr650m in capital gains from the sale of Banque Scandinave en Suisse and parts of FinansSkandic.

Problem loans amounted to SKr13.1bn at the end of March – 4.7 per cent of total lending – compared with SKr24.7bn a year earlier. Even since the year-end, the problem loan total has fallen 22 per cent.

Group income before credit losses was SKr2.93bn, up 22 per cent from a year ago. The disposals helped lift overall income by 19 per cent to SKr4.86bn from SKr4.09bn but expenses were 8 per cent higher due to increased equipment and marketing outlays.

Not interest income rose only 3 per cent to SKr2.22bn. The bank was helped by the reduced cost of financing problem credits, but lower lending activity and tight margins limited the benefit.

The group said its capital adequacy ratio was 13.6 per cent at the end of the quarter, compared with 8.5 per cent at the end of March 1993.

● Svenska Handelsbanken is bringing together its securities and foreign exchange market activities in a new unit, Handelsbanken Markets.

It said the move had been prompted by increasing securitisation and the globalisation of securities and foreign exchange markets during the 1990s. The unit will have 1,000 employees in 11 countries.

Pakistan primes flagship for sell-off

PTC could be worth $9bn, writes Farhan Bokhari in Islamabad

The Pakistan government plans to appoint a group of consultants by the end of this month to put a value on Pakistan Telecommunications Corporation (PTC) in the first phase of preparing the company for privatisation later this year.

The consultants' report is expected to be followed by preparation of a schedule for the sale of 26 per cent of PTC's shares. The government wants to sell those shares to a "strategic investor" – a consortium or individual company committed to technical modernisation of phone services. Another 25 per cent of the company will probably be sold through a public floatation.

The PTC is widely regarded as the flagship among Pakistan's government-owned companies which are being offered for privatisation. The company has expanded rapidly over the past three years, investing up to $1bn to add phone lines to its network. As a result, the number of subscribers has almost doubled to 2.2m. Another 670,000 customers are expected to be connected within the next year.

One sign that the backlog of potential subscribers has eased came recently when the company for the first time advertised in Karachi – Pakistan's largest city and business capital – offering to provide instant connections.

The company's growth is reflected in profits and the value placed on its assets. Government officials involved with promoting privatisation programme say the company could be worth almost $9bn. Last year, PTC earned net profits equivalent to just over $500m.

In spite of PTC's lucrative business potential, its privatisation has been dogged by controversy. The process was held up for more than two years, largely due to objections from the armed forces over fears that its takeover by the private sector would be a threat to national security. But last month, the government of Ms Benazir Bhutto, the prime minister, overcame those objections after giving assurances that part of the money raised through the PTC's partial privatisation would be used for setting up a smaller communication network exclusively for use by the armed forces.

In spite of the government's determination to go ahead, many businessmen are concerned over the future of the plan.

One, who has brokered three factory privatisations during the past three years, said: "This is a giant. It would be hard to find many investors – institutional or private – who could easily bring together the financial package to buy it out. I suspect it may take between two to four years before private owners are able to come in." He is sceptical of a $9bn valuation. "If there has to be a substantial lowering of price, that could also cause a further delay," he said.

Last month, representatives of donor countries such as the UK, Germany and Japan, meeting with Pakistani government officials during the annual aid-to-Pakistan consortium meeting in Paris, urged Islamabad to press ahead with its plans to privatise telephone, gas and electricity companies. Some Pakistani officials and economists acknowledged that such privatisations offered the only hope of repaying part of of the country's foreign debt of more than $26bn.

More than two-thirds of the country's annual budget of about Rs300bn ($10bn) is taken up by on debt servicing and defence, leaving scant resources for projects such as road construction, energy, healthcare and education.

Japan banks to report losses on securities

By Emiko Terazono in Tokyo

Tokai Bank, a Japanese commercial bank, and Mitsui Trust Bank announced they will report evaluation losses on their securities portfolios as of March 31.

Japanese companies and financial institutions have been reporting unrealised losses on their securities holdings over the past two weeks, due to the sluggish stock market and weak earnings. Under Tokyo stock exchange rules, companies must report unrealised securities valuation losses if they total 30 per cent or more of the previous year's pre-tax or after-tax profits.

The losses will not affect earlier earnings forecasts, as they had been included into the projections. Tokai reported unrealised losses on its securities portfolio of Y16.23bn ($149m), or 77.8 per cent of its after-tax profit for the previous year. Mitsui Trust said it would post an Y8.5bn evaluation loss on its securities holdings.

Last week, a total of 14 commercial, long-term credit and trust banks reported losses, including Dai-Ichi Kangyo Bank with losses of Y25.6bn, Sumitomo Bank with Y24.8bn, and Sakura Bank with Y23.2bn.

Nomura Securities, the largest broker, reported an evaluation loss of Y19.7bn, while Daiwa Securities announced Y9.89bn loss on its securities portfolio.

Citizen in US computer deal

By Michiyo Nakamoto in Tokyo

Citizen, the Japanese watch and information equipment maker, has agreed to manufacture mobile computers for Digital Equipment, the US computer maker.

Citizen said the deal covered notebook and sub-notebook computers but not personal digital assistants. The products manufactured by Citizen would be marketed and sold exclusively by Digital and its authorised channels, the companies said.

The Japanese company will bring to the partnership its expertise in miniaturisation and component technologies. Its tie-up with Digital would provide it with opportunities to market the computer peripherals that Citizen manufactures, the company said.

NEWS DIGEST

Mt Leyshon rises to A$23.4m

By Nikki Tait in Sydney

Mount Leyshon Gold Mines, part of Mr Robert Champion de Crespigny's Normandy Poseidon group, yesterday announced an after-tax profit of A$23.4m (US$16.7m) for the nine months to end-March, compared with A$15.2m a year ago.

Mt Leyshon said production rose by 4 per cent, to 168,988 ounces, while gold sales revenue reached A$103.1m, a 13 per cent improvement. This was attributed to the increase in production and the achieved gold price of A$612 per ounce – which compared with an average spot price of A$555.

Mine operating costs were A$346 per ounce for the third quarter, a 2 per cent reduction over the previous quarter. Mt Leyshon said this figure should fall as benefits of lower mining and crushing costs emerged from the current plant expansion. Poseidon Gold, the gold arm of the Normandy Poseidon, has a 75.6 per cent interest in Mt Leyshon.

Meanwhile, Gold Mines of Kalgoorlie, part of the Normandy Poseidon group, reported after-tax operating profits of A$20.3m for the same period, up 2.6 per cent on the previous corresponding period. This included a A$4.2m abnormal unrealised foreign exchange gain, relating to the translation of long-term US dollar convertible bonds.

Simsmetal buys private UK group

Simsmetal, the Australian scrap metal company, yesterday announced that it was expanding its UK operations with the acquisition of G. F. Denton & Sons, a private company based in London, but would not be proceeding with its previously-announced plans to purchase businesses in the US.

No purchase price was given for the UK deal, but Simsmetal said its UK trading operations would have an annual turnover exceeding A$30m (US$21.3m), the majority of which would come from the newly-acquired operations.

The UK deal came as Simsmetal announced a third-quarter profit of A$11.8m after tax, and a pre-tax surplus of A$18.1m.

Sales in the three months to end-March were A$173m. This brings after-tax earnings for the first nine months to A$35.3m, or A$54.6m at the pre-tax level.

Deutsche Bank wins banking licence

Deutsche Bank has been granted a branch banking licence in Australia. The German company said this would give it more flexibility in expanding its wholesale and investment banking business in the country, although it stressed that it had no intention of moving into the retail banking market.

It said that Bain & Co, in which it has a 100 per cent interest, would continue to operate Deutsche Bank's investment banking operations in Australia.

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MORGAN STANLEY & CO. International

Arranger for issues of Deutschemark Instruments
MORGAN STANLEY GMBH

Arranger for issues of French Franc Instruments
BANQUE PARIBAS

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PARIBAS CAPITAL MARKETS
SALOMON BROTHERS INTERNATIONAL Limited
SWISS BANK CORPORATION
UBS LIMITED

March 1994

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February 1994

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U.S. $200,000,000

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Bank Leumi Le-Israel, B.M.
Bayerische Vereinsbank AG
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Bank in Liechtenstein AG
Deutsche Girozentrale – Deutsche Kommunalbank –
Bank Hapoalim (Switzerland) Limited
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Caixa Geral de Depósitos S.A., Paris Branch
Crédit National
Deutsche Girozentrale Deutsche Kommunalbank –
Deutsch-Schweizerische Bank AG
De Nationale Investeringsbank N.V.
DG BANK Deutsche Genossenschaftsbank
Dresdner Bank AG
Fibi Bank (Switzerland) Ltd.
GiroCredit Bank
ING Bank
Luzerner Kantonalbank
MeesPierson N.V.
Monte dei Paschi di Siena Frankfurt am Main Branch
Raiffeisen Zentralbank Österreich AG
Société Européenne de Banque S.A.
Union Bank of Switzerland

Agent
Union Bank of Switzerland

Payment of Dividend

NOTICE IS GIVEN to shareholders that following a resolution passed at the Annual General Meeting of shareholders held on 26 April, 1994 a dividend for the year ended 31 December, 1993 of DM 7 per share of DM 50 par value will be paid as from 27 April, 1994 against delivery of Coupon No. 57 from shares of DM 50 or Coupon No. 8 from London Deposit Certificates of DM 5.

Dividend of 14 % will be subject to German Capital Yield Tax of 25 %.

Coupons may be presented as from 27 April, 1994 to

S. G. Warburg & Co. Ltd.
Paying Agency
2 Finsbury Avenue
London EC2M 2PA

from whom appropriate claim forms can be obtained.

The dividend will be paid at the rate of exchange ruling on the day of payment.

Payments in respect of London Deposit Certificates will be made at the rate of exchange ruling on the day of receipt of dividend on the underlying shares deposited in Germany.

United Kingdom Income Tax will be deducted at the rate of 5 % unless claims are accompanied by an affidavit.

German Capital Yield Tax deducted in excess of 15 % is recoverable by United Kingdom residents, and the Company's United Kingdom Paying Agent will, upon request, provide holders with the appropriate forms for such recovery.

Hoechst Aktiengesellschaft
Frankfurt am Main, April 1994

Hoechst

USD 100,000,000
KANSALLIS - OSAKE - PANKKI
Subordinated Floating Rate Notes due July 1997
Interest Rate 4.50% p.a.
Interest Period April 26, 1994 July 26, 1994
Interest Amount due on July 26, 1994 per
USD 10,000 USD 113.75
USD 250,000 USD 2,843.75
Banque Générale du Luxembourg
Agent Bank

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U.S. $75,000,000
CREDITANSTALT
Creditanstalt-Bankverein
(Incorporated in the Republic of Austria with limited liability)
Inverse Floating Rate Notes Due 1998
Notice is hereby given that for the interest period from April 27, 1994 to October 27, 1994 the rate has been determined at 5.88282% per annum. The amount payable on October 27, 1994 per U.S. $1,000, U.S. $10,000 and U.S. $100,000 principal amount of Notes will be U.S. $29.90, U.S. $299.04 and U.S. $2,990.43 respectively.
By: The Chase Manhattan Bank, N.A. London, Agent Bank
April 27, 1994
CHASE

This announcement appears as a matter of record only
spirax sarco
$20,000,000
Spirax-Sarco Engineering plc
Guaranteed Senior Notes due 2006
Private placement of these securities with institutional investors has been arranged through the undersigned.
WERTHEIM SCHRODER & CO. Incorporated
April 1994

This announcement appears as a matter of record only
GOAL PETROLEUM
$30,000,000
Goal Petroleum plc
Senior Notes due 2006
Private placement of these securities with institutional investors has been arranged through the undersigned.
WERTHEIM SCHRODER & CO. Incorporated
April 1994

ANZ Bank
Australia and New Zealand Banking Group Limited
Australian Company Number 005 357 522
(Incorporated with limited liability in the State of Victoria, Australia)
U.S. $250,000,000
Subordinated Floating Rate Notes due 2000 of which U.S. $140,000,000 is being issued as the Initial Tranche and U.S. $70,000,000 is being issued as the Second Tranche
Notice is hereby given that for the Interest Period 26th April, 1994 to 26th October, 1994 the Notes will carry a Rate of Interest of 5.125 per cent. per annum with an Amount of Interest of U.S. $2,605.21 per U.S. $100,000 Note. The relevant Interest Payment Date will be 26th October, 1994.
Bankers Trust Company, London
Agent Bank

U.T.G.B. International (Jersey) Limited
U.S. $40,000,000
Floating Rate Guaranteed Notes due 1996
For the Interest Period 26th April, 1994 to 26th October, 1994 the Notes will carry a Rate of Interest of 6.125% per annum, the Coupon Amount payable per U.S. $5,000 Note will be U.S. $155.68, and for the U.S. $100,000 Note will be U.S. $3,113.54, payable on 26th October, 1994.
Listed on the Luxembourg Stock Exchange.
Bankers Trust Company, London Agent Bank

INTERNATIONAL CAPITAL MARKETS

Treasuries rise in spite of signs of consumer confidence lift

By Frank McGurty in New York and Sara Webb in London

US Treasury bonds were slightly higher yesterday in spite of news of a surge in consumer confidence this month.

By 1pm, the benchmark 30-year government bond was $\frac{1}{32}$ ahead at $89\frac{3}{8}$, with the yield slipping to 7.139 per cent. At the short end, the two-year note was up $\frac{1}{32}$ at $99\frac{3}{8}$, to yield 5.556 per cent. Earlier, bonds registered solid gains, as the optimism which spread through the market the previous afternoon carried over into yesterday's opening.

Trading in the cash and futures markets is suspended today as the country observes a national day of mourning for former President Richard Nixon, who died at the weekend.

Over the past week, fixed-rate investors have become increasingly confident that economic growth in the first three months of the year was more moderate than they had feared just a month ago.

As a result, bond prices have improved markedly with the approach of Thursday's preliminary estimates of first-quarter gross national product. Estimates centre on a 3 per cent increase, compared with 7 per cent in the final 1993 quarter.

The expectation of slower growth has reinforced conviction among traders that the Federal Reserve will lift short-term interest rates only once more this year, probably near the May 17 meeting of its policy-making arm, the Federal Open Market Committee. With the Fed apparently moving to the sidelines, bonds, especially at the long end of yield curve, have become more resilient to unfavourable news.

Yesterday was a good example. The Conference Board, an industry trade group, said its April consumer confidence index jumped to 91.7, from 86.7 the previous month. Although analysts were expecting only a slight increase, the long bond slipped, rather than plunged, and then regained its poise near midday.

The market was still facing an influx of fresh supply, with a Treasury auction of $17bn in new two-year notes set for later in the afternoon.

On Thursday, the sale of $11bn in five-year securities is scheduled.

GOVERNMENT BONDS

■ German government bonds ended a volatile day more than half a point higher, regaining some of the ground lost on Monday. This was in spite of another poor money supply figure.

German economic data provided the main talking point in the bund market yesterday morning. March M3 money supply expanded at a seasonally-adjusted annualised rate of 15.2 per cent, down from 17.5 per cent for February. However, perversely, even though the M3 figure was well above the Bundesbank's 4-6 per cent target corridor, traders said the market stayed firm, helped by short-covering.

Yesterday also saw the release of inflation figures from the western German state of Hesse, where consumer prices rose 0.3 per cent in the month to mid-April, and by 3.2 per cent against a year earlier. Bond analysts said the monthly rise was disappointing.

Yesterday morning, Germany's six leading economic institutes forecast that the Bundesbank would continue to ease short-term interest rates and predicted that pan-German gross domestic product would rise by 1.5 per cent in 1994. The forecast matches the institutes' previous forecast for 1994, issued six months ago, and is at the upper end of the German government's own forecast of between 1 per cent and 1.5 per cent.

The main focus for the market today will be the repo announcement. Many market participants are expecting the Bundesbank to slice a further eight to 10 basis points off the rate. The lowest accepted rate at last week's repo was 5.58 per cent.

The Liffe bund futures contract opened at 94.05 and reached a high of 94.52 before following the US Treasury market down in the afternoon, to a low of 93.88. The contract settled at 94.26, up 0.61 from the previous close.

■ UK government bonds opened firm and edged higher initially, following the German market and helped by the release of the CBI quarterly industrial trends survey late in the morning.

However, the market dropped back at lunchtime, then bounced back to end up half a point on the previous close.

Mr Simon Briscoe, economist at S.G. Warburg Securities, said the CBI survey should help to revive hopes of a base rate cut. "The fall in business confidence reminds us that after a week of strong data not everything is hunky-dory. The survey is good for the gilt market; rate cuts cannot be ruled out later in the year and price pressures are very subdued."

The Liffe long gilt futures contract opened at 106.23 and fell from its high of 107.11 to a low of 106.01, settling at 106.26.

Market participants expect today's auction of the 6 per cent stock due 1999 to go well, given the demand for this particular five-year issue, and because the Bank of England's auction is relatively small at £2bn.

Matif picks brokers for new currency option trade

By Tracy Corrigan

The Matif, the French futures exchange, has appointed 18 members to act as associated brokers on its new currency options contracts, due to be launched on May 20.

The options, on the dollar/D-Mark and dollar/French franc exchange rates, are aimed primarily at corporate treasurers, whose preferences have been taken into account in the structuring of the contracts, according to the Matif. The new products are also targeted at fund managers.

Corporate treasurers often complain that currency options are too expensive in the over-the-counter market. The Matif options could provide a cheaper alternative, but there are concerns that the contracts will not prove sufficiently liquid.

Currency options are already traded on the Philadelphia Stock Exchange. A previous attempt by London's Liffe to trade foreign exchange options ended in failure in 1990, when the contracts were de-listed due to chronically low volume.

"I think we will have the same sort of clients as on the Philly, but with more European participants," said one broker. She noted that although the Philadelphia exchange opened very early in the morning, smaller market participants may not bother to call the US.

The associated brokers have undertaken to maintain a trading team in the currency options pit, and to trade a minimum volume in each contract.

The list includes French subsidiaries of BZW, Merrill Lynch and PaineWebber, as well as French brokers.

Issue planned by Slovak central bank

The Slovak National Bank will return to the international capital markets this year with a bond issue to replenish currency reserves and supplement help from the International Monetary Fund and World Bank, Reuter reports from Vienna.

Central bank official Ms Elena Kohutikova said the bank planned a follow-up to last year's $240m private placement lead-managed by Nomura.

Combined borrowing by the Slovak state and the central bank rose to $1.982bn at the end of 1993, from $1.625bn at the start of the year.

This represented a national debt of $683 a head, up from $562 at the start of 1993, and equivalent to 35 per cent of gross domestic product at year-end, against 29 per cent, the official said.

Belgium makes historic return with FFr5bn deal

By Conner Middelmann

The Eurobond market awakened from its recent torpor and saw several large issues, including Belgium's first in the French franc sector since the second world war. There was also a five-year Euroyen issue for Sweden and two sterling deals.

INTERNATIONAL BONDS

Belgium issued FFr5bn of 6⅞ per cent eight-year bonds, via joint leads CCF and J.P. Morgan. The issue was "the first of a long series of issuance in the French franc market", said Mr Jean Basecq, director-general in charge of debt at the Belgian treasury. He said Belgium's choice of French francs was motivated by a desire for currency diversification. "We have too much D-Mark and Swiss francs in our portfolio, and will keep issuing in the French franc market," he said.

Meanwhile, Belgium's long-awaited DM1bn issue has been postponed, said Mr Basecq. "When the market is better and investors are ready to buy, we will come to the D-Mark sector," he said.

Belgium's bonds were priced to yield 20 basis points over the corresponding OAT at their 99.55 re-offer price, which some dealers felt was a bit tight. However, the leads reported solid demand, mainly from French institutional investors. The bonds closed at 99.25 bid, with the spread slightly wider at 21 basis points over the OAT.

In the sterling sector, Eastern Electricity, the UK's largest electricity distributor, made its Eurobond debut with £350m of 8⅜ per cent 10-year bonds. Yielding 55 basis points over the benchmark gilt at the 99.596 re-offer, the issue was widely deemed to be well-priced. It slipped to around 99.10 bid due to weakness in the gilt market, but the spread held steady.

While lead managers BZW and CS First Boston reported healthy demand, others said the issue had been slow to place. "There currently isn't enough depth in the market for that kind of size," said one dealer.

Part of the proceeds was used to refinance two £59m tranches of 12⅛ per cent bonds, said Mr Eric Anstee, group finance director at Eastern Electricity. "We wanted to take them off our books at 12⅛ per cent and refinance them at this attractive interest rate," he said. The remainder of the funds would be used to assist the growth of the group, he said.

Earlier in the day, Abbey National Treasury Services issued £150m of 8¾ per cent subordinated 10-year bonds via Salomon Brothers and S.G. Warburg. Its 85-basis-point spread over gilts at re-offer attracted healthy demand, mainly from UK investors. It also prompted switches out of Lloyds Bank's recently-issued subordinated bonds, as well as other bank issues, one of the lead managers said.

The Kingdom of Sweden tapped the Euroyen market for Y75bn of 3⅞ per cent five-year bonds via joint leads Goldman Sachs and Sumitomo Finance. Structured to pay semi-annual coupons matching the benchmark Japanese government bond, the deal was targeted at Japanese investors. However, there was also demand from Hong Kong and Europe.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
YEN							
Kingdom of Sweden(a)	75bn	3.875#	99.775R	Jun.1999	0.25R	+36 (No.119)	Goldman Sachs International
DSL Bank	30bn	3.80	100.00R	May.1999	0.25R	-	Nomura International
STERLING							
Eastern Electricity(b)	350	8.375	99.596R	Mar.2004	0.35R	+55 (6¾%-04)	BZW/ CS First Boston
Abbey Natl.Treasury Services	150	8.75	99.337R	May.2004	0.45R	+85 (6¾%-04)	Salomon/ S.G. Warburg
FRENCH FRANCS							
Kingdom of Belgium	5bn	6.875	99.55R	May.2002	0.30R	+20 (8½%-02)	CCF
CANADIAN DOLLARS							
Ford Credit Canada(a)	100	8.125	99.429R	May.1999	0.325R	+69 (5¾%-99)	ScotiaMcLeod
ITALIAN LIRE							
Bayerische Hypobank(c)	150bn	9.625	100.45	May.2004	2.00	-	Banca Commerciale Italiana
AUSTRALIAN DOLLARS							
Deutsche Bank Australia	150	7.00	100.375	Jun.1997	1.50	-	Deutsche Bank London
SWISS FRANCS							
Südwestdeutsche Landesbank	100	5.00	102.00	Jun.2004	-	-	Zürcher Kantonalbank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Long 1st coupon. b) Short 1st coupon. Callable at any time at the higher of par or gilts flat. Event risk language. c) Callable on 20/5/97 and annually thereafter at par.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.500	08/03	108.9300	+0.540	8.11	8.44	7.17
Belgium		7.250	04/04	98.0600	+0.370	7.53	7.40	7.38
Canada *		6.500	06/04	89.8000	+0.800	7.99	8.32	7.85
Denmark		7.000	12/04	97.3700	+0.170	7.36	7.21	6.94
France	BTAN	8.000	05/98	105.8750	+0.280	6.31	5.94	5.78
	OAT	5.500	04/04	90.4500	+0.720	6.85	6.82	6.60
Germany		6.000	09/03	95.9800	+0.310	6.58	6.47	6.28
Italy		8.500	01/04	97.0000	–0.140	8.97†	8.97	9.37
Japan	No 119	4.800	06/99	105.7680	–0.370	3.48	3.37	3.52
	No 157	4.500	06/03	103.3470	–0.140	4.00	4.03	4.14
Netherlands		5.750	01/04	93.2400	+0.620	6.72	6.78	6.54
Spain		10.500	10/03	107.3000	+0.450	9.29	9.25	8.94
UK Gilts		6.000	08/99	93–13	+10/32	7.54	7.45	7.05
		6.750	11/04	92–27	+16/32	7.76	7.74	7.76
		9.000	10/08	109–10	+16/32	7.91	7.90	7.82
US Treasury *		5.875	02/04	92–30	+12/32	6.88	7.13	6.60
		6.250	08/23	88–28	+19/32	7.16	7.40	6.98
ECU (French Govt)		6.000	04/04	90.9000	+0.420	7.32	7.22	6.94

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

		One month	3.86	Two year	5.58
Prime rate	6¾	Two month	3.70	Three year	5.91
Broker loan rate	5	Three month	3.98	Five year	6.44
Fed.funds	3¾	Six month	4.41	10-year	6.83
Fed.funds at intervention	-	One year	4.88	30-year	7.13

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	120.28	120.58	+0.50	121.28	120.16	328,629	139,929
Sep	119.38	119.72	+0.48	120.36	119.36	6,061	13,822
Dec	118.64	119.00	+0.50	118.64	118.60	112	529

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls May	Calls Jun	Calls Sep	Puts May	Puts Jun	Puts Sep
120	0.74	1.45	1.77	0.17	0.97	-
121	0.26	0.88	1.27	0.59	1.38	-
122	0.04	0.45	0.93	1.43	1.89	-
123	-	0.19	0.63	-	2.59	-
124	-	0.06	0.38	-	-	-

Est. vol. total, Calls 60,681 Puts 58,355 . Previous day's open int., Calls 443,932 Puts 330,982.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.05	94.26	+0.61	94.65	93.78	222892	177308
Sep	93.57	93.67	+0.56	94.06	93.50	3681	9088

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
9400	1.03	1.49	0.77	1.62
9450	0.76	1.27	1.00	1.90
9500	0.55	1.05	1.29	2.18

Est. vol. total, Calls 14976 Puts 15893. Previous day's open int., Calls 307783 Puts 262241

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.74	99.67	+0.27	99.74	99.74	1	1880

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	110.70	112.10	+1.88	112.43	110.70	80090	79806
Sep	111.55	111.61	+1.83	111.72	111.55	70	1904

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11200	1.42	2.48	1.32	2.87
11250	1.17	2.28	1.57	3.15
11300	0.95	2.05	1.85	3.44

Est. vol. total, Calls 1516 Puts 1446. Previous day's open int., Calls 62553 Puts 79697

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	97.59	97.72	+0.58	97.92	97.30	67,587	111,979
Sep	97.80	97.330	-2.40	97.80	97.80	2	104

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106-23	106-26	+0-17	107-11	106-01	92256	129065
Sep	-	106-00	+0-20	-	-	0	198

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
106	1-61	2-47	1-09	2-47
107	1-26	2-17	1-38	3-17
108	0-62	1-56	2-10	3-56

Est. vol. total, Calls 2063 Puts 1781. Previous day's open int., Calls 97158 Puts 73733

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	87.04	87.46	+0.44	87.84	87.00	2,994	7,468

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	106-12	106-19	+0-03	106-28	106-09	294,087	424,112
Sep	105-13	105-19	+0-03	105-27	105-10	1,072	49,079
Dec	104-21	104-30	+0-03	105-05	104-21	318	32,941

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	111.81	-	-	111.93	111.70	1827	0
Sep	110.83	-	-	110.83	110.80	30	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Apr 26	Day's change %	Mon Apr 25	Accrued interest	xd adj. ytd		Low coupon yield Apr 26	Apr 25	Yr. ago	Medium coupon yield Apr 26	Apr 25	Yr. ago	High coupon yield Apr 26	Apr 25	Yr. ago
1 Up to 5 years (23)	122.94	+0.10	122.82	1.38	4.13	5 yrs	7.60	7.64	7.00	7.78	7.82	[illegible]	[illegible]	[illegible]	[illegible]
2 5-15 years (23)	145.88	+0.32	145.42	1.59	4.84	15 yrs	7.78	7.84	7.88	7.92	7.97	[illegible]	[illegible]	[illegible]	[illegible]
3 Over 15 years (9)	165.87	+0.48	165.07	2.26	3.78	20 yrs	7.78	7.84	8.11	7.92	7.97	[illegible]	[illegible]	[illegible]	[illegible]
4 Irredeemables (6)	188.58	+0.87	186.96	–0.20	6.12	Irred.†	7.91	7.98	8.51						
5 All stocks (61)	142.68	+0.28	142.27	1.61	4.46										

Index-linked							Inflation 5% Apr 26	Apr 25	Yr. ago	Inflation 10% Apr 26	Apr 25	Yr. ago
6 Up to 5 years (2)	184.71	+0.05	184.61	0.33	2.53	Up to 5 yrs	3.40	3.41	2.38	2.49	[illegible]	[illegible]
7 Over 5 years (11)	179.05	+0.08	178.91	0.73	1.69	Over 5 yrs	3.47	3.47	3.48	[illegible]	[illegible]	[illegible]
8 All stocks (13)	178.75	+0.07	178.61	0.69	1.77							

Debentures and Loans						5 year yield Apr 26	Apr 25	Yr. ago	15 year yield Apr 26	Apr 25	Yr. ago
9 Debs & Loans (73)	134.12	+0.35	133.65	1.91	4.17	8.88	8.88	8.94	8.97	9.01	[illegible]

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Apr 26	Apr 25	Apr 22	Apr 21	Apr 20	Yr ago	High*	Low*
Govt. Secs. (UK)	96.06	95.73	96.50	95.96	95.67	95.77	107.04	95.67
Fixed Interest	115.42	115.69	115.65	115.10	115.41	111.75	133.87	115.10

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Apr 25	Apr 22	Apr 21	Apr 20	Apr 19
Gilt Edged bargains	88.8	124.2	135.8	123.9	158.9
5-day average	125.5	124.6	115.8	126.9	[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on April 26

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	93⅛	93⅜	+⅛	7.58
AlbertaProvince 9¾ 95	500	104⅞	105¼		5.84
United Kingdom 7⅛ 97	5500	103⅛	103½		6.09
Volkswagen Intl Fin 7 03	1000	93¼	93⅝	–½	7.19
World Bank 0 15	2000	25⅞	25¾	+⅛	6.54
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

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UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	1994 High	1994 Low
Shorts" (Lives up to Five Years)						
Exch 13½pc 1994	13.50	-	100	—	[illegible]	100
[illegible]						

Notes	Yield Int	Yield Red	Price £	+ or –	1994 High	1994 Low
10pc 2003	8.85	7.98	[illegible]	+⅜	[illegible]	[illegible]
Treas 11½pc 2001-4	9.82	8.18	117⅛	+¾	[illegible]	[illegible]
Funding 3½pc '99-4	4.64	6.68	75⅜	+⅝	[illegible]	74¼
Conversion 9½pc 2004	8.56	7.91	[illegible]	+⅜	[illegible]	[illegible]
[illegible]						

Notes	Yield (1)	Yield (2)	Price £	+ or –	1994 High	1994 Low
Index-Linked (b)						
Treas. 2pc '94 (102.9)	-	-	138	—	138	[illegible]
2pc '96 (67.9)	2.14	3.25	198¼	—	203⅝	198¼
4⅝pc '98‡‡ (135.6)	2.55	3.29	107⅝xd	+⅛	[illegible]	[illegible]
[illegible]						

Other Fixed Interest

[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

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Stronger UK and US markets help Tarmac

By Andrew Taylor,
Construction Correspondent

Tarmac yesterday became the latest UK construction and building materials group to announce a sharp recovery in profitability in 1993 as it took advantage of improving markets in the UK and US.

Pre-tax profits of continuing businesses quadrupled from £13.6m to £55.7m thanks mainly to a strong performance by UK housebuilding.

After allowing for goodwill write-offs on disposals, the group recorded a reduced pretax loss of £43.1m (£350.3m).

The shares, which since the beginning of this year had outperformed the sector, fell 8p to 178p on profit-taking and concerns that recovery in housing profits could be undermined by higher land prices.

Mr Neville Simms, chief executive, said group profits were expected to improve further in the current year as Tarmac took advantage of rising house sales and prices and better building material margins.

Prices of UK building materials rose by 5 to 10 per cent during the year and by similar amounts in the US where the construction recovery was even more advanced and widespread than in the UK.

Turnover of continuing businesses fell from £2.44bn to £2.37bn. Losses per share were were 11.3p (38.4p). Pre-exceptional earnings per share were 3.1p (0.4p losses). The group is paying a maintained dividend of 5.5p with a proposed same-again 2.5p final.

Interest payments fell from £58.8m to £39.4m as the group cut net debt, including auction market preferred stock, from £577m to £194m, helped by last autumn's £214.9m rights issue. Gearing fell from 63 per cent to 18 per cent.

The company, which planned to increase spending on housing land with a provisional target of building 8,500 homes a year by 1996, said gearing was not expected to rise above 40 per cent.

Mr Simms said that the group would not chase house sales at the expense of profit. It would reduce sales if the housing market fell away or land prices became too expensive.

The housing division produced the biggest improvement last year with operating profits rising by 43 per cent to £55.2m (£38.6m) in spite of a reduced turnover of £606m (£651m).

There was also a turnround in the building materials division which made a £3.2m profit (£2.9m loss), and in the US, which moved from a £1.4m loss to a £3.5m profit.

Construction, in spite of a difficult UK market, maintained profits at £21.1m (£22.7m) on slightly lower turnover of £945.5m (£978m).

Quarry products was the odd poor performer with profits falling by 24 per cent to £20.3m (£26.6m) because of reduced sales of coated stone in the UK and difficult conditions in France.

See Lex

Protests fly as new BAe chief appointed

By Paul Betts,
Aerospace Correspondent

Small shareholders of British Aerospace yesterday staged a vociferous protest against the appointment of an American as their new chairman at the company's annual meeting.

Although the company secured an overwhelming majority of proxy votes in favour of the appointment of Mr Bob Bauman, the former chief executive of SmithKline Beecham, the pharmaceutical group, a special resolution to enable a non-UK citizen to become chairman of BAe was defeated by a show of hands at the meeting to the embarrassment of the company's other directors.

Under new rules, a non-UK citizen can become a non-executive chairman or director of the company but all executive directors continue to require UK citizenship.

When Mr John Cahill, the outgoing chairman who never seemed comfortable chairing his last AGM in his brief two year tenure of the BAe top job, proposed the special resolution, a shareholder asked how could one ensure that Mr Bauman had not been programmed by the CIA to oversee the sale of BAe to McDonnell Douglas of the US.

Mr Cahill said the search for the new chairman had been exhaustive. "Whether or not he works for the CIA will be determined by our security forces", he said.

Mr Bauman will receive a salary of £50,000 a year, will have options on 120,000 BAe shares at a price of 550p, and would work at least two days a week, said Lord Hollick, chairman of the remuneration committee, after one shareholder suggested Mr Bauman would only work one day a month for BAe at that salary.

Two protesters had to be dragged out by security guards while others kept interrupting the proceedings with opposition to Indonesian arms sales because of the East Timor conflict. More were protesting outside the hotel during a meeting which had more than its moment of farce.

John Wood edges ahead to £19.1m

By James Buxton,
Scottish Correspondent

John Wood Group, the privately owned Aberdeen-based company which claims to be the UK's biggest indigenous oilfield services group, experienced slower profits growth in the year to December 31 but continued to expand turnover.

Pre-tax profits were up 3 per cent at £19.1m (£18.5m), having jumped 10 per cent in 1992. Turnover was ahead 19 per cent at £242m (£203.6m).

The company reorganised its North Sea oil and gas services operation in order to cut costs in the face of ever-weakening oil prices, Sir Ian Wood, chairman and managing director, said. It carried out sizeable contracts for Shell Expro and is involved in its Brent field long term programme.

In overseas oil and gas markets, Wood concentrated resources in south-east Asia, in addition to its operations in the US and the Middle East. It acquired JP Kenny, the oil services group, which brought it an important presence in several oil producing countries, including Norway and Malaysia.

Sir Ian said low oil prices would inevitably result in an overall reduction in North Sea activity, but the company's own market share had increased because of its ability to offer services throughout the life of the fields.

He expected its work on North Sea projects to be strong for the next two to three years with some of the recommendations of the Cullen report still to be implemented and some large secondary recovery projects in prospect.

Shareholders' funds rose 16 per cent to £57.7m.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Air London §	int	1.6	June 21	1.6	-	3.5
Barlows	fin	nil	-	nil	nil	0.825
Cosalt	int	3	Aug 26	2.125	-	5.375
Eadie	fin	0.7	July 1	0.5	1	0.5
Edinburgh Inv	fin	5.8	July 6	5.55	8.75	8.4
EFG	fin	0.1	June 3	nil	0.1	nil
Geared Inc Inv	fin	2.825	June 7	2.625	8.075	7.875
Herring Baker	fin	1	June 20	0.5	1.5	3.75
Huntleigh Tech §	fin	2.5†	July 1	2*	4.5	3.333*
Jupiter European	int	0.7	June 21	1‡	-	2.1‡‡
Lyles (S)	int	1	June 16	1.55	-	3.3
Sears	fin	2.68	July 1	2.5	3.68	3.5
Secs Tst Scot	fin	2.17	July 1	2.17	3.25	3.25
Tarmac	fin	2.5†	July 18	2.5	5.5	5.5
Venturi Inv Tst	fin	2.19	June 9	1.99	3.75.	3.45
Wensum §	fin	1.375	July 1	1.25	2	1.825

Dividends shown pence per share net. †On increased capital. *Equivalent after allowing for scrip issue. §USM stock. ‡For 10 months. ‡‡For 16 months.

Wheel of history goes full circle

Tony Jackson and Richard Tomkins on BAT's $1bn US acquisition

BAT's $1bn (£680m) purchase of American Tobacco, announced yesterday, brings the wheel of history full circle.

At the turn of the century Buck Duke, the brilliant and aggressive founder of American Tobacco, attacked the UK tobacco market. British companies formed an alliance – Imperial Tobacco – to head him off.

In 1902 the two companies struck a truce: each would leave the other's home market alone, while their overseas operations were merged in a new joint venture – British American Tobacco.

By trapping both parents at home, the deal ensured their progeny would ultimately outgrow them. For American Tobacco, the game was up in 1911, when the US Supreme Court forced the sale of its BAT holding on monopoly grounds.

Then, in 1927, BAT entered the US market by buying Brown & Williamson, now America's third biggest domestic tobacco company after Philip Morris and RJR Nabisco. American Tobacco, shrunk to a subsidiary of American Brands, is number five.

Aside from the logic of history, the deal is in some respects a very odd one. The US tobacco industry is under unprecedented pressure. From a peak of 617bn cigarettes a year in 1977, the market last year was a mere 485bn.

The Clinton administration is threatening new and sweeping curbs on smoking, and the market has been ferociously competitive ever since Philip Morris slashed the price of its Marlboro brand a year ago.

According to US brokers Sanford C Bernstein, industry profits last year dropped from $9.6bn to $5.2bn. American Tobacco was worst hit again: from over $500m in 1991 and 1992, its pre-tax profits last year were just $169m.

In addition BAT, like Philip Morris, RJR Nabisco and American Brands itself, has been using its cash flow to diversify. In BAT's case, the strategy since the mid-1980s has been to specialise in financial services. Granted, buying US tobacco assets at this point has an obvious contrarian appeal. In addition, the deal is a neat opportunity to gain US ownership of brands like Lucky Strike and Pall Mall, which BAT already owns elsewhere in the world. But does it not make nonsense of the group's overall direction?

Not at all, says Mr Martin Broughton, BAT chief executive. The world tobacco industry has been restored to growth status by one decisive factor: the collapse of communism.

Vast markets such as China and the former Soviet Union, previously closed to western companies, are now opening up. BAT is accordingly setting up joint ventures in such places as Uzbekistan and the Ukraine. America, Mr Broughton concedes, is in no sense a growth market. But it is cash-generative, and thus complements the new joint ventures, which are long-term and cash-hungry.

In addition, he says, until a couple of years ago a US tobacco deal would have been ruled out on anti-trust grounds. Two things now convince him that this deal will be allowed. First, in a US court case in which BAT was involved two years ago, the judge ruled that the US tobacco market, while oligopolistic, was highly competitive. Second, the chaos caused by the Marlboro price war last year shows competition working in practice.

Whatever BAT's arguments, it seems significant that American Brands' share price jumped by $2 to $33¾ yesterday, in spite of poor earnings figures reported for its first quarter. Clearly, one advantage American Brands expects from the deal – besides a handy $1bn of cash – is relief from the downward pressure on its share price resulting from the political storm over smoking.

Not that the deal takes it out of tobacco. Of its tobacco revenues of $7.4bn last year – more than half the group total – four fifths came not from American Tobacco but Gallaher, the international operation which is Britain's and Ireland's biggest cigarette company.

But American Brands' drive away from tobacco has been single-minded. In the last five years it has spent nearly $5bn on acquisitions, building up a portfolio of consumer brands.

Its large distilled spirits division takes in Jim Beam, the world's biggest-selling bourbon, and Whyte & Mackay, which became the world's third largest Scotch whisky producer with its acquisition of Invergordon Distillers last year.

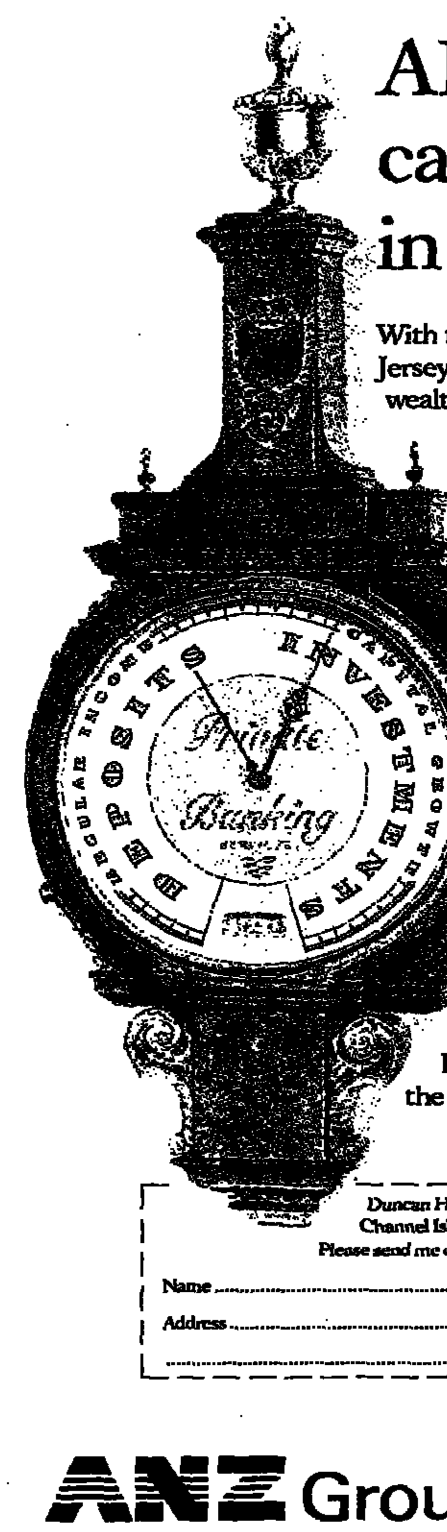
It also owns Franklin Life Insurance, MasterBrand locks and hardware, ACCO World office supplies and Dollond & Aitchison, Europe's biggest optician.

For a long time now, American Tobacco has long looked a weak player in the US. With its Lucky Strike, Pall Mall, Tareyton, Carlton, American, Montclair, Misty, Riviera, Private Stock, Prime and Summit brands, it has a small and declining share of the market, now less than 7 per cent, and looks vulnerable to further squeezing by the big companies in a shrinking market.

For Mr Broughton, this is part of the appeal. BAT's market share is 11 per cent, making it a poor third after Philip Morris and RJR. American Tobacco is fifth. Putting the two together increases BAT's volume by half. "We see a merger as being in the consumer's interest", Mr Broughton says – no doubt with one eye to the anti-trust authorities. "It makes us a serious third force in the market."

Whether that is a desirable position remains to be seen. It is worth noting, though, that BAT's share price went up yesterday as well as American Brands'.

The undoing of history, it seems, has its own rewards.



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REPUBLIC NEW YORK CORPORATION
SAFRA REPUBLIC HOLDINGS S.A.

Consolidated Statements of Condition
and Summaries of Results

These statements and summaries represent the consolidated accounts of Republic New York Corporation and its wholly owned subsidiaries and of Safra Republic Holdings S.A. and its wholly owned subsidiaries. Republic New York Corporation owns 48.8% of Safra Republic Holdings S.A., which is accounted for by the equity method.

	REPUBLIC NEW YORK CORPORATION March 31,		SAFRA REPUBLIC HOLDINGS S.A. March 31,	
	1994	1993	1994	1993
	(In thousands of US$ except per share data)			
Assets				
Cash and due from banks	$ 602,263	$ 446,934	$ 51,341	$ 60,864
Interest bearing deposits with banks	5,505,088	7,271,423	3,964,369	3,301,579
Precious metals	1,521,937	419,242	–	–
Investment securities	14,585,763	13,063,123	6,285,640	5,557,635
Trading account securities	2,954,056	844,131	93,368	43,617
Federal funds sold and securities purchased under resale agreements	2,159,596	1,769,200	–	–
Loans, net of unearned income	10,051,994	7,925,159	1,251,398	1,173,516
Allowance for possible loan losses	(313,416)	(251,870)	(110,901)	(56,790)
Loans (net)	9,738,578	7,673,289	1,140,497	1,116,726
Other assets	4,795,335	3,282,057	329,003	280,081
Total assets	$41,862,616	$34,769,399	$11,864,218	$10,360,502
Liabilities				
Total deposits	$22,139,301	$20,713,976	$ 7,667,212	$ 6,819,860
Trading account liabilities	2,484,177	114,558	–	–
Short term borrowings	5,879,697	4,228,341	2,015,178	1,705,094
Other liabilities	4,010,969	3,091,999	240,197	231,215
Long term debt	2,628,242	2,175,662	750,000	447,600
Subordinated long-term debt and perpetual capital notes	2,205,674	2,130,988	–	–
Shareholders' Equity				
Cumulative preferred stock	556,425	556,425	–	–
Common stock and surplus, net of treasury shares	714,802	711,288	904,302	901,870
Retained earnings	1,265,093	1,046,162	343,608	254,863
Net unrealized loss on securities available for sale, net of taxes	(21,764)	–	(56,279)	–
Total shareholders' equity	2,514,556	2,313,875	1,191,631	1,156,733
Total liabilities and shareholders' equity	$41,862,616	$34,769,399	$11,864,218	$10,360,502
Book value per share	$ 37.32	$ 33.67	$ 67.17	$ 63.37
Client portfolio assets in custody			$ 5,779,502	$ 3,697,565
Net income, for the three months ended	$ 79,779	$ 8,745	$ 43,247	$ 27,205
Net income per common share (primary)	$ 1.38	$ 1.18	$ 2.44	$ 1.54
Average common shares outstanding (primary)	52,557	52,196	17,738	17,703

Risk-Based Capital Ratios

As of March 31, 1994, Republic New York Corporation's risk-based core capital ratio was 16.15% (estimated) and total qualifying capital ratio was 27.80% (estimated.) The ratios include the assets, risk-weighted in accordance with the requirements of the Federal Reserve Board specifically applied to Republic New York Corporation on a fully consolidated basis and capital of Safra Republic Holdings S.A. Total consolidated assets are approximately US$ 52 billion and total consolidated capital, including minority interest and subordinated debt, exceeded US$ 5.3 billion.

Republic New York Corporation
Fifth Avenue at 40th Street
New York, New York 10018

Safra Republic Holdings S.A.
32, boulevard Royal
2449 Luxembourg

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Edinburgh Investment Trust exceeds targets

By James Buxton, Scottish Correspondent

Edinburgh Investment Trust increased net assets per share by 14 per cent from 300.8p to 342.1p in the 12 months to March 31, its highest ever year end level.

The increase fulfilled the trust's objective of beating the FT-SE-A All-Share index, which rose by 10.9 per cent over the period.

It also achieved its aim of dividend growth above the UK inflation rate, having recommended a final of 5.8p which makes a total for the year of 8.75p (8.4p), a rise of 4.2 per cent.

EIT, managed by Dunedin Fund Managers, reported net revenue for the year of £30m (£27.2m) for earnings per share up 10 per cent to 10.17p (9.25p).

The figures benefited both from growth in investments and from enhanced scrip dividends, which added 0.54p to earnings.

EIT said these dividends, which many companies paid last year for tax reasons, were often worth 50 per cent more than the cash distributions, but did not expect them to be repeated.

The company borrowed £100m in 1992 to invest in gilts but took capital gains on its portfolio when gilt yields fell and in early 1994 transferred £50m into equities.

EIT warned that the lower yields on equities, compared with gilts, and the expectation of fewer enhanced scrip dividends in the current year was likely to lead to a decline in earnings.

It added, however, that this would not impair its ability to meet its dividend growth objective because of the strength of the revenue reserve which had risen to 7.31p per share at the year end.

The company saw attractive prospects for capital and dividend growth in the UK, where 87 cent of its equities are invested. The rest of its investments are in North America with 3.7 per cent, Europe, 4.3 per cent, Japan, 4.2 per cent and the Pacific Basin (excluding Japan), 1 per cent.

Float price values Hamleys at £42.3m

By Neil Buckley

Hamleys, the self-styled "finest toy shop in the world", yesterday set its flotation share price at 185p, valuing the group at £42.3m.

The estimated total proceeds of the placing and intermediaries offer, the joint sponsors of which are Hambro Magan and Cazenove, are £12m net of expenses. That will pay off Hamleys' remaining long-term debt.

The market capitalisation was slightly higher than the £40m previously suggested. But the shares, on a notional historic p/e of 17.8 times, are at a discount to the sector average of 19. A notional dividend of 4.7p for the year to January 29 would give a gross yield of 3.2 per cent – higher than the sector average of approximately 2.8 per cent.

The deadline for receipt of applications and cleared funds from intermediaries is midday on May 4.

● COMMENT

The question for Hamleys is whether it can capitalise on its retailing expertise and the strength of its brand – demonstrated by its Regent Street flagship – to grow the business. The strategy of opening small outlets in airports and tourist centres seems sounder than failed attempts in the 1980s to build full-range branches in UK provincial cities, although their profits contribution may be unspectacular. Potentially more interesting is the plan to operate concessions for other retailers, such as the deal recently struck with House of Fraser. Earnings growth prospects may be modest, but the business is soundly managed, the yield is good, and the price looks realistic.

NHS contract worries hit Eadie shares

Eadie Holdings, the general engineer, lifted pre-tax profits from £768,353 to £1.98m over the 1993 year on turnover ahead 27 per cent at £29.5m.

The shares, however, dipped 3p to 37p as the group expressed concern about its contract with the National Health Service.

Mr Peter Bromwich, chairman, said most parts of the transport and distribution division performed well.

The wheelchairs side had a good year, but uncertainties within the NHS have led to a delay in the placing of the annual contract.

Mr Bromwich said there could possibly be a significant reduction in the final level of orders received.

Earnings per share rose from 1.33p to 2.55p and the total dividend is lifted from 0.5p to 1p via a final of 0.7p.

Huntleigh climbs 24% to £6.86m

By David Wighton

Huntleigh Technology, the medical equipment manufacturer whose share price has risen 10-fold in the last three years, increased pre-tax profits by 24 per cent, from £5.54m to £6.86m, over the 1993 year.

Sales rose 25 per cent to £35.5m (£28.4m), driven partly by strong growth in the UK which accounted for 27 per cent (21 per cent) of group turnover. There was a £2.98m contribution from acquisitions.

The company also announced that Mr Julian Schild had been made deputy chairman in addition to his present role as finance director.

Mr Schild said his father, Rolf, now 69, had no intention of retiring as chairman but added: "He may devolve more of the bureaucratic side of running the business."

Profits included a contribution of £160,000 after financing costs from Nesbit Evans, Huntleigh's first significant acquisition, purchased for £11.8m in November.

The group ended the year with net borrowings of £6.2m, largely due to the acquisition, representing gearing of 57 per cent. This is expected to fall significantly in the current year.

Mr Rolf Schild said that all the group's divisions had started 1994 well and he predicted another record year.

Earnings per share share rose 29 per cent to 17.3p (13.4p) and the total dividend goes up 35 per cent to 4.5p (3.33p) with a proposed final of 2.5p.

The shares slipped 12p to 488p.

NEWS DIGEST

Cosalt swings back to profit

Stronger performances from its fibres, holiday homes and workwear divisions enabled Cosalt to swing from losses of £220,000 to profits of £765,000 pre-tax for the half year ended February 27.

The turnround was also aided by a £132,000 reduction in interest charges to £397,000. Earnings of 4.11p compared with previous losses of 1.64p and the interim dividend is lifted from 2.125p to 3p.

Turnover of continuing activities rose from £28.7m to £30.9m – the group's other interests take in safety and protection and residential property development.

The shares closed 8p higher at 153p.

Air London lower with £300,000

Air London International, the USM-quoted charter broker, reported lower pre-tax profits of £300,000 for the six months to January 31, against £411,000.

Although turnover improved from £6.9m to £7.8m, operating profits were affected by pressure on margins and a marginal increase in overheads, Mr Anthony Mack, chairman, said.

The interim dividend is held at 1.6p, payable from lower earnings of 2.2p (3.2p) per share.

Barlows losses cut to £523,000

Barlows, the property investment and development group, cut pre-tax losses to £523,000 in 1993. This compared with a restated £2.54m last time, which was after a £1.61m provision for losses on disposal of investment properties.

Turnover amounted to £1.57m (£1.86m). Losses per share were 1.94p (10.65p) and no dividend is declared – last year's interim was 0.825p but no final was paid. The company said it expected to return to profit this year and resume dividend payments.

Net assets at the end of 1993 were unchanged at 69.8p.

Herring Baker £430,000 in red

Severely affected by the losses and closure of the US business, Herring Baker Harris Group, the chartered surveyor and property adviser, suffered pre-tax losses of £430,000 for the year ended January 31, compared with profits of £1.36m.

However, included in the figures this time were pre-tax profits of £780,000 from continuing businesses, on turnover of £15.9m. This was within a group figure of £17m, compared with last year's £19.4m.

Losses per share were 6.95p, against 3.97p earnings, and a halved final distribution of 1p makes a 1.5p (3.75p) total.

Losses and costs from the US side were £1.2m, while the continuing businesses in the UK and Europe produced operating profits of £921,000.

Marine Midland progresses

Net income of Marine Midland Bank, the US offshoot of HSBC Holdings, rose from $34m to $52.6m (£36m) for the first quarter of 1994.

The 55 per cent advance was primarily because of improved net interest income and other revenues, offset partially by higher taxes.

Geared Income Inv Trust improves

Geared Income Investment Trust raised net asset value per share from 77.93p to 105.37p over the 12 months ended March 31 1994.

Net revenue for the period climbed from £1.87m to £1.99m, after tax of £489,000 (£597,000). Earnings per share emerged at 8.92p (8.48p) while a fourth interim dividend, in lieu of a final, makes an 8.075p (7.875p) total.

EFG in black and looking for growth

EFG, the garden centre and horticultural products group, returned to the dividend list with a proposed 0.1p for the year to January 30 after reporting pre-tax profits of £132,000, against losses of £6.1m.

The result was helped by lower exceptional charges of £449,000 (£4.92m), relating to provisions for discontinued activities. Operating profits on continuing activities were £589,000 (£113,000 losses).

Net interest costs were £164,000 (£481,000).

Turnover was £14.5m (£20.4m) including £4.68m (£7.11m) from discontinued activities. Earnings per share were 0.32p (losses 37.16p).

Simon Engineering makes further sale

Simon Engineering yesterday announced a further move in its restructuring with the sale of Simon-Macawber to Clyde Blowers for between £4m and £4.45m, depending on net assets at completion. A further £350,000 may also be payable.

Clyde is raising a net £5.2m by a 5-for-11 rights issue of 2.45m shares at 237p. Its shares fell 15p to 290p.

Macawber makes pneumatic pressure and vacuum conveying systems. In 1993 trading profits were £350,000 on turnover of £11.9m. Net assets at the year-end were £1.9m.

The aggregate value of the deal to Simon is £5.5m, taking account of cash retained and waiver of inter-company loans. Simon's shares rose 4p to 125p.

I&S Enterprise lifts net asset value 17%

Ivory & Sime Enterprise Capital, an investment trust aiming at capital growth through venture capital situations, reported a fully diluted net asset value of 118.85p as at March 31.

The figure represented an increase of 17 per cent over the six months to end-March.

Net losses for the period from July 12 – the date of incorporation following the restructuring of Independent Investment – to March 31 were £228,000.

Jupiter European asset value ahead

Jupiter European Investment Trust had a net asset value per ordinary share of 109.4p at February 28, against 76.33p a year earlier. The value per zero dividend preference share rose from 26.91p to 31.18p.

Available revenue for the six months to end-February was £154,177, against £89,599 for the 10 months to February 28 1993, equivalent to earnings of 0.83p (0.58p) per share.

An interim dividend of 0.7p (1p for 10 months) is declared.

Sherwood Computer denies possible offer

Sherwood Computer Services, the USM-quoted financial software company, said it had noted the recent rise in the share price following the announcement of its 1993 results last week.

The directors said that, contrary to certain recent press speculation, they were not engaged in any discussions concerning a possible offer for Sherwood.

The company incurred pre-tax losses of £1.67m, after exceptional charges of £1.86m, last year.

Yesterday the shares closed down 5p at 110p.

S Lyles edges ahead to £113,000

Despite continuing difficult trading conditions and problems in securing "adequate" margins, pre-tax profits at S Lyles, the carpet yarn manufacturer, edged ahead to £113,000 in the half year to December 31.

The rise from the comparable £102,000 came on turnover from continuing operations of £7.76m (£6.71m). Mr John Lyles, chairman, said the sales increase reflected changes in the product mix and pressure of selling prices.

He added, however, that the first-half had ended on an encouraging note – particularly in domestic markets – and the improvement has so far been carried over into the second half.

Earnings per share emerged at 1.14p (1.02p). The interim dividend is cut from 1.55p to 1p, although the company intends to at least maintain the full-year total at 3.3p "if justified by the eventual results and other considerations".

W Bedford guarded despite recovery

Shares of William Bedford dipped 2p to 32p after the antique dealer and restorer accompanied its annual results with a guarded outlook on future trading.

Despite the "worst summer sales that we have ever experienced" the USM-quoted group returned to the black with pre-tax profits of £95,652 (losses of £271,759) for 1993.

The directors warned, however, that the recovery was partly attributable to devaluation of stock in dollar terms.

Turnover improved to £1.78m (£1.57m). Earnings per share were 1.8p against losses of 5p.

Securities Trust net asset value rises

Net asset value per share of Securities Trust of Scotland, the Martin Currie-managed investment trust, increased from 84.5p to 90.1p over the year to March 31.

Available revenue was higher at £10.5m, compared with £9.78m, giving earnings per share of 3.26p (3.03p). The final dividend is unchanged at 2.17p for a same-again 3.25p total.

Wensum makes strong recovery

Wensum, the USM-quoted men's wear and corporate-clothing group, made substantial progress in the second half to January 29 with pre-tax profits ahead from £56,077 to £261,680.

This contributed to a full year surplus of £317,757, compared with a £43,807 loss previously, on turnover up from £6.57m to £8.37m.

The corporate clothing side performed well and lifted profits from £38,000 to £344,000.

Earnings per share were 2.87p (0.33p losses) while a final dividend of 1.375p makes a total of 2p (1.825p).

STRONG INCREASE IN EARNINGS FOR 1993

The BFCE Board of Directors, chaired by Michel Freyche, met April 6, 1994 to approve the 1993 consolidated financial statements

[illegible]	1992	1993	Change
Net banking income	2,154	2,256	+ 5 %
Gross operating income	745	840	+ 13 %
Net income, excluding minority interests	137	202	+ 47 %
Total capital	6,600	7,300	+ 11 %
Cooke ratio	8.8 %	9.2 %	

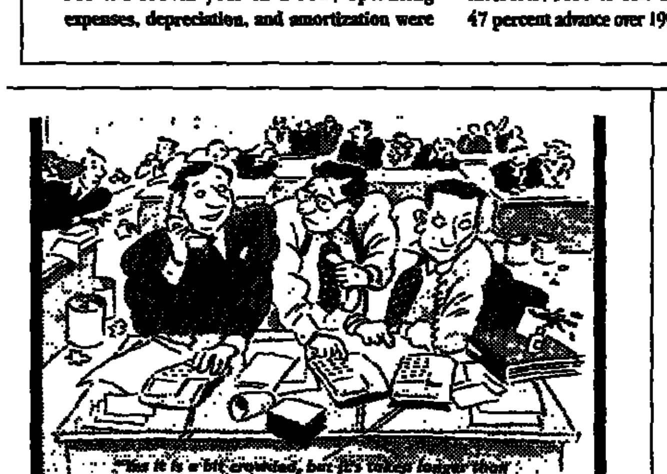
A sharp increase in activity, particularly on the international side and in the financial markets
Consolidated net banking income for 1993 amounted to FRF 2,256 million. This 5 percent improvement over 1992 was due to an 11 percent increase in commercial banking activities, while institutional activities on behalf of the French State continued to decline gradually, representing only 12 percent of net banking income for 1993.
Substantial commercial banking growth resulted from strong development in financial market and international activities. Commercial banking in France meanwhile managed to register a slight advance, despite the unfavorable economic environment.

Gross operating income up sharply
For the fourth year in a row, operating expenses, depreciation, and amortization were stable, enabling gross operating income to increase by 13 percent to FRF 840 million.
Prudent risk management and the high-quality BFCE client base led to a reduction in provisions from FRF 411 million in 1992 to FRF 336 million in 1993.

A sharp increase in operating income and net income
Operating income increased 51 percent to reach FRF 504 million. This strong rise enabled the bank to make a further major FRF 230 million allocation to the general banking risks fund, strengthening core equity. Net non-recurring transactions included a supplemental allocation of FRF 60 million to provide complete coverage of known retirement benefit commitments.
Consolidated net income, excluding minority interests, rose to FRF 202 million, a sharp 47 percent advance over 1992.

Renewed strengthening of the Bank's financial base and enhanced profitability
Thanks to the increase in the general banking risks fund, income transferred to reserves, and various redeemable subordinated note issues, total capital increased by more than FRF 700 million, FRF 500 million of which represented core equity, and now stands at FRF 7.3 billion.
The Bank's solvency (Cooke) ratio reached 9.2 percent at year-end, including 5.4 percent for core equity.
1994 is expected to show continued earnings improvement and greater profitability.

BFCE Banque Française du Commerce Extérieur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Interest Period: April 27, 1994 to October 27, 1994 (183 days)
Interest Rate: 4.79% p.a.
Coupon Amount: U.S.$ 241.48 per U.S.$ 10,000 Note
Payment Date: October 27, 1994
Frankfurt/Main, April 1994
COMMERZBANK

BRITANNIA BUILDING SOCIETY
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Due 1996
In accordance with the terms and conditions of the Notes, notice is hereby given that for the three month interest period from (and including) 26th April 1994 to (but excluding) 26th July 1994 the Notes will carry a rate of interest of 5.35 per cent. per annum. The relevant interest payment date will be 26th July 1994. The coupon amount per £10,000 Note will be £133.38 payable against surrender of Coupon No: 31.
Hambros Bank Limited
Agent Bank

WOOLWICH BUILDING SOCIETY
£150,000,000
Floating Rate Notes
Due 1995
In accordance with the terms and conditions of the Notes, notice is hereby given that for the three month interest period from (and including) 26th April 1994 to (but excluding) 26th July 1994 the Notes will carry a rate of interest of 5.35 per cent. per annum. The relevant interest payment date will be 26th July 1994. The coupon amount per £5,000 will be £66.69 and per £100,000 will be £1,333.84 payable against surrender of Coupon No: 17.
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PosTel £39m portfolio sale to TR Property

By Simon Davies

PosTel, the UK's largest pension fund, is to sell £39m of properties to TR Property Investment Trust in a transaction which will almost double the size of the fund and leave PosTel as a 21 per cent shareholder in the trust.

TR is buying a portfolio of 10 properties with a rental income of £3.14m. The deal will be satisfied through the issue to PosTel of 39m conversion shares, which will be converted into ordinaries by November 15.

In addition, TR is raising £60m from the placement of 61m C shares, 21m of which are subject to clawback for an offer to existing shareholders and to the public.

The placing and offer will raise £100m before expenses, compared with the fund's market capitalisation of some £112m.

The properties were held by PosTel Properties, a property fund jointly owned by the Post Office and British Telecom pension funds.

The company has been gradually selling this £1bn property portfolio. It sold £143m of properties to Hammerson last month and other properties are up for sale.

Mr Alastair Ross Goobey, chief executive of PosTel Investment Management, said that "it is a question of greater flexibility, for as and when we want to become net sellers of property".

Mr Ross Goobey will join the TR board.

TR has existed in its current form since 1982 and has focused on investments primarily in smaller listed and unlisted property companies.

One of its early forays into unlisted investment was its stake in the consortium that won the contract to develop County Hall.

The consortium went into receivership with losses of about £50m after facing problems with planning permission from Lambeth Council.

TR lost £10m and has since shied away from passive stakes in large property schemes.

Mr Peter Duffy, director and manager of TR, said the latest deal "gives us the capacity to increase our property content at a time when we think direct property is more attractive than property shares".

He said TR might swap the properties for property shares in another company at a later stage.

It will have 31 per cent of its gross assets invested in properties; some 46 per cent of the latest portfolio is industrial, 42 per cent office, and 12 per cent retail.

Also proposed is a 1-for-5 scrip issue of warrants, which will apply to the new owners of C shares.

Britannia Marine to float in June

By Andrew Bolger

Flotation is an abiding concern for Britannia Marine, which operates safety standby vessels for oil and gas companies on the UK continental shelf.

However, the Lowestoft-based company will be concentrating on a different kind of launch when it comes to the market in June through a placing.

Britannia owns and operates nine standby vessels, which can evacuate staff from drilling rigs and production platforms, and one supply vessel.

The listing will offer an exit route to the company's existing 1,120 shareholders, most of whom backed the company through two business expansion schemes which raised a total of £4.2m.

Mr Charles Lister, managing director, said there was scope for further consolidation in what was a very fragmented industry. In due course the group would also be interested in diversifying into other shipping activities.

The company was formed in 1987 as the vehicle for a management buy-out of the safety standby fleet of Boston Deep Sea Fishers for the North British Maritime Group. Mr Lister led the buy-out, which was backed by BES investors through funds managed by Castleforth Fund Managers and Johnson Fry. In 1989 it bought Suffolk Marine for £9.3m.

Britannia last year increased pre-tax profits to £2.5m, compared with £1.4m, on turnover ahead £1m to £13.8m.

The group said no new money would be raised through the issue of new shares at the time of the listing since the company would have net cash and was cash-generative.

Peel Hunt has been appointed sponsor and broker to the issue, with Smith & Williamson acting as financial adviser.

Bennett & Fountain shares dip

By David Blackwell

Shares in Bennett & Fountain, the wholesaler and retailer of electrical goods acquired by Marlowe Holdings last November, closed at 2p, down ¾p, after resuming trading yesterday.

Marlowe is a private holding company that owns Edmondson, one of the two biggest electrical wholesalers in the UK. It already has valid acceptances for its 2p a share offer in respect of just over 72 per cent of the company. The unconditional offer closes on May 9. The following day B&F will ask the Stock Exchange to cancel the listing.

Kleinwort Endow

Kleinwort Endowment Policy Trust raised net assets per share to 115.7p at March 31, against 105.9p a year earlier. Projected final net asset value at October 31 2003 is 311p.

A more effective way to fight the retail war

A restructured Sears has seen its profits grow. **Neil Buckley** reports on its recovery

The hobby of Mr Liam Strong, the Irishman who is chief executive of the Sears retail group, is said to be military history. It is an interest that has come in useful in his two years at the UK's largest multiple specialty retailer.

With close to 3,000 stores, Sears, when Mr Strong arrived, was a huge army marching forward without direction or strategy. But with the imposition of a bit of military discipline it is being turned into a more effective retail fighting machine.

Like fellow clothing groups Storehouse, Next and Burton, Sears had become bloated and unmanageable in the late 1980s. Like Next and Storehouse it appears to have found the way forward.

In two years, profits have increased from £22.8m to £138m, while sales increased only slightly, from £1.98bn to £2.01bn.

While the results in the last two years have been obscured by a mass of exceptional items, yesterday's figures showed a clear improvement and analysts upgraded their forecasts from the £145m level to £150m for the present year.

Operating margins increased from 5.2 per cent to 6.2 per cent, prompting Mr Strong to claim Sears was "no longer a recovery story but a growth story".

The reshaping and rationalisation of the group, and especially of its shoe retailing business, British Shoe Corporation, is largely completed. Now the task is to keep on improving operational efficiency, updating the formats, improving sourcing and ranging to pull more customers into the stores and cut the level of markdowns.

Like clothing groups Storehouse, Next and Burton, Sears had become bloated and unmanageable in the late 1980s. Like Next and Storehouse it appears to have found the way forward

If its gets this right, Sears believes net margins can improve to 7 or 8 per cent and beyond.

At BSC, where Mr Strong implemented a plan to close 350 stores and shed 1,800 staff, hopes are pinned on three new formats into which the majority of the group, apart from the existing Dolcis chain, will be converted.

They include Shoe Express, a self-service, mass-market format; Hush Puppy, a more upmarket store, and Shoe City, an out-of-town shoe superstore.

Sears has also launched an out-of-town superstore, Olympus Sportsworld, in its leisure wear division. Nine have already been built, with a target of 50. At Olympus's high street chain, work is already under way on increasing the percentage of own-label products to improve the margin.

In the women's wear business, Mr Strong sees the task as introducing new formats and improving ranges to differentiate the Wallis, Warehouse and Miss Selfridge chains from their competitors on the high street.

He says some success has already been had at Richards, where introducing petite and large-size ranges, and a shoe offer, has led to a significant increase in sales.

Analysts believe more tricky areas to get right might be Adams, the children's wear business which is competing against a resurgent Mothercare and saw a fall in like-for-like sales last year, and Freemans, the mail order business that is number three in the UK market but where sales have been static for some years.

Mr Strong counters that a new format at Adams will propel it forward, and says improvements in efficiency at Freemans led to an improvement in net margins and a 20 per cent increase in underlying sales last year.

Sears spent £78m last year on implementing its programme, and plans to spend £85m to £90m this year on converting 190 shoe stores to the Shoe Express and Hush Puppy format, building five to 10 Sportsworlds, and introducing new distribution systems at Freemans.

The threats to Mr Strong's carefully-laid plans come from several directions. One is that the recent tightening of restrictions on out-of-town retailing announced by Mr John Gummer, environment secretary, may curtail the opening programmes of Shoe City and Sportsworld.

Potentially a more serious problem may be the arrival of other low-priced, superstore formats. In sportswear, the powerful US chains Sports Authority and Sports Unlimited are said to be eyeing the UK market greedily, while in clothing TJ Maxx, the US discount retailer, is already here.

There is home-grown competition in the shape of Matalan, the Preston-based private company which has quietly built up a thriving chain of 135 stores throughout the UK offering a wide range of mass-market clothing at very low prices.

Mr Strong plays down the threat, believing Sears will have built up a significant position in out-of-town sports retailing before the competition arrives, and insisting his clothing chains will be focusing on offering the best possible value.

For would-be military commander Mr Strong, the Sears retailing army has made some important territorial advances, but the war is not yet won.

NatWest bad debts decline

Shares in National Westminster Bank closed 7p up at 446p yesterday after Lord Alexander, the chairman, told the annual meeting that bad debts were declining faster than it had expected at the beginning of the year, writes John Gapper.

He said provisions for bad and doubtful debts last year fell by 30 per cent and that although it was proving hard to increase income, "bad debts are continuing to decline faster than we expected at the beginning of the year".

Lord Alexander also said that the number of written complaints to the bank's head office had fallen by 18 per cent to 8,722 during the last year.

NEWS DIGEST

Emerald calls for £660,000

Emerald Energy, the Isle of Man-based energy producer which obtained a USM quote last November, is calling for £660,000 net via a placing of 25m shares at 2¾p.

The money raised will be used to purchase and develop further gasfields in the Appalachian Basin, West Virginia, close to its producing New Martinsville and Mannington fields. Following some refurbishment, the acquisition is expected to add about £300,000 to annual group profits.

Malaya

Malaya, the USM-quoted motor retailer, is making two acquisitions to increase its coverage in London and the home counties.

The company is paying £2.3m for HF Edwards, which operates Fiat, Alfa Romeo and Peugeot franchises in Epsom, and Peugeot and Suzuki franchises in Tadworth, Surrey.

It is also to acquire, subject to franchise approval, the London Lotus service centre, a multi-franchise dealership in St Albans, representing Lotus, Jeep and Suzuki. Terms for London Lotus, one of the UK's largest Lotus dealerships, will be announced in due course.

Bunzl

Mr Anthony Habgood, chief executive of Bunzl, the distribution and cigarette filters group, earned a £137,500 performance related bonus in 1993, which took his remuneration to £521,454 against £388,373 in 1992.

The bonus was based on growth of earnings per share, which rose from 5.6p to 8.3p. Pre-tax profits in 1993 improved from £40.4m to £55.8m, with significant help coming from translation of North American profits at a stronger dollar exchange rate. Earnings were also helped by a lower tax rate.

Rentokil

Rentokil Group is making a further investment of \$1.5m (£900,000) cash for two US acquisitions.

The companies are Sidwa & Associates, a Dallas interior landscaping concern, and Comex Commercial Exterminators, a Georgia-based pest control group.

At the same time, Rentokil confirmed the purchase of M and B Projektbeplanting in the Netherlands for Fl 500,000 (£200,000) cash.

IN BRIEF

ASPREY has acquired four retail outlets in Jersey and Guernsey from Signet for £1.1m. Asprey will operate the shops within its Watches of Switzerland subsidiary, increasing its branches to 29.

JLI GROUP has paid £2.75m cash for part of the packing and distribution business of Kernels Foods. Further maximum consideration of £500,000 is dependent on performance targets. For the year to end-March 1994 the acquired business will show pre-tax profits of £500,000 on sales of £4m.

TEMPLETON LATIN America Investment Trust has received applications for 8.7m subscription shares. With 37.5m shares issued in placing makes total of 46.2m with 9.24m warrants. Gross proceeds £46.2m.

WATES CITY of London Properties has sold long leasehold interest in 7/10 Foster Lane, London, to Stargas Nominees for £6.25m cash.

PETROFINA S.A.
Office : 52 rue de l'Industrie - B-1040 Brussels
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Shareholders are invited to attend the ANNUAL GENERAL MEETING which will be held in Brussels, at 52 rue de l'Industrie, on Monday MAY 16, 1994, at 3p.m. (Brussels time), with the following agenda :

Report of the Board of Directors on the financial year 1993. Auditors' report on the financial year 1993. Annual accounts for the year ending 31st December 1993. Board of Directors' proposal to the meeting to approve these annual accounts. Allocation of profits. Board of Directors' proposal to the meeting to distribute a gross dividend of 280 Belgian francs per share. Discharge of Directors. Board of Directors' proposal to the meeting to grant discharge to the Directors for the performance of their duties in the course of the financial year 1993. Discharge of auditors. Board of Directors' proposal to the meeting to grant discharge to the auditors for the performance of their duties in the course of the financial year 1993. Statutory appointments. Board of Directors' proposal to the meeting to re-elect Mr Jean-Louis Beffa and Mr Paul Desmarais Sr, to elect the Right Honourable Brian Mulroney as members of the Board of Directors and to elect definitely Mr Gérard Mestrallet, previously co-opted. Any other business.

The meeting room will be accessible from 2.15 p.m. onwards.

Before the meeting at 2.45 p.m. a short film about Petrofina and affiliated companies' activities in 1993 will be shown.

The bearer shares may be deposited until and included Wednesday 11, 1994 at:

Banque Bruxelles Lambert Générale de Banque
CCBR Kredietbank Banque Paribas Belgique
Banque Nationale de Paris Crédit du Nord
Banque Internationale à Luxembourg Banque Générale du Luxembourg
Commerzbank Deutsche Bank Dresdner Bank ABN-Amro Bank
Crédit Suisse Swiss Bank Corporation Union Bank of Switzerland
Credito Italiano Barclays Bank (Fenchurch St., London)
Citibank N.A. (ADR Department) USA

The annual report is there also available.

The Board of Directors

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 27.04.94 Pool purchase price £/MWh	Final Prices for Trading on [illegible] Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.05	10.82	10.82
0100	11.00	10.81	10.81
0130	11.20	10.88	10.89
0200	11.36	15.83	15.63
0230	11.73	15.86	15.86
0300	11.73	15.66	15.66
0330	11.36	15.65	15.65
0400	11.17	15.62	15.62
0430	11.15	15.60	15.60
0500	11.08	10.85	10.85
0530	11.15	10.82	10.82
0600	11.16	10.82	10.82
0630	11.20	10.89	10.89
0700	20.17	15.76	15.75
0730	22.88	16.83	19.69
0800	41.34	22.88	25.74
0830	24.95	20.02	22.88
0900	41.38	22.88	25.74
0930	41.35	20.02	22.88
1000	41.35	20.02	22.88
1030	24.94	20.02	22.89
1100	24.12	20.02	22.88
1130	24.94	20.02	22.88
1200	24.95	20.02	22.88
1230	24.93	20.02	22.88
1300	24.92	20.02	22.88
1330	23.57	16.83	19.69
1400	23.57	16.83	19.69
1430	22.88	16.83	19.69
1500	22.88	16.83	19.69
1530	22.88	16.83	19.69
1600	22.88	16.83	19.69
1630	23.58	16.83	19.69
1700	32.79	16.83	19.69
1730	32.78	16.83	19.69
1800	31.64	16.83	19.69
1830	22.97	15.72	15.72
1900	22.33	15.70	15.70
1930	20.86	15.75	15.75
2000	20.85	15.74	15.74
2030	17.03	16.27	19.12
2100	30.15	16.83	19.69
2130	30.15	16.83	19.69
2200	30.15	14.52	17.37
2230	26.53	15.64	15.64
2300	20.17	10.97	10.97
2330	12.70	10.88	10.88
2400	11.16	10.82	10.82

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.98/MWh becomes 1.598p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between 8:30am and 5:15pm Monday to Friday.
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SAMMI

SAMMI STEEL CO., LTD.
(Incorporated in the Republic of Korea with limited liability)
Notice to the Warrantholders of the outstanding
US\$50,000,000
1½ per cent. Bonds due 1994 with Warrants
to subscribe for Non-voting Shares of Sammi Steel Co., Ltd.

NOTICE IS HEREBY GIVEN to the Warrantholders that on 28th March, 1994, the Company has authorised the issuance of Bonds (W3 Billion) convertible into Common Shares of the Company. The issue date was 8th April, 1994 and the initial conversion price was set at W7,400.
The consideration per Common Share receivable (W7,400) by the Company from the issue is less than the current market price (determined in accordance with the provision of the Instrument constituting the Warrants) at 28th March, 1994, which was W8,236.
Accordingly, in accordance with the provision of the said Instrument, the existing subscription price of W44,140 has been adjusted with effect from 7th April, 1994, to W44,089.

April 27th, 1994 — *Sammi Steel Co., Ltd.*

MICROTEK INTERNATIONAL INC.
(Incorporated in the Republic of China with limited liability)
Notice
to the holders of the outstanding
Microtek International Inc.
(the "Company")
US\$29,000,000
3.5 per cent. Bonds due 2001 (the "Bonds")

NOTICE IS HEREBY GIVEN to the holders of the Bonds that the Board of Directors of the Company by a resolution dated April 23, 1994, authorized the issue of 18,481,000 shares of the Company's Common Stock and Cash Dividend of NT\$0.50 Per Share for free distribution to shareholders as dividends, and employees as a bonus. The Board of Directors has fixed May 11, 1994 as the record date for the detemination of the shareholders and employees entitled to receive such dividends and free distribution. Pursuant to the provisions of the Indenture constituting the Bonds, the Conversion Price of the Bonds has been adjusted as a result of the above issue from NT\$76 to NT\$68, effective May 11, 1994 (Republic of China time).

April 27, 1994 — *Microtek International Inc.*

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GENERALE

SOCIETE GENERALE DE BELGIQUE
Société Anonyme

Incorporated in Brussels by Royal Decree dated 28 August 1822
Registered Office: 30 rue Royale, 1000 Brussels
Trade Register Number : Brussels 17487

The Board of Directors is pleased to invite shareholders to assemble at the Company's registered office, rue Royale 30, Brussels on Wednesday 18 May 1994 at 10.30 am
* for the ordinary general meeting, in accordance with the terms of Article 22 of the Memorandum and Articles of Association, to vote on the following agenda:

AGENDA

1. Board of Directors' special report and Auditors' report, drawn up for cases of duality of interest.
2. Board of Directors and Auditors' reports for the 1993 financial year.
3. Approval of the Company's annual accounts:
   Proposal to approve the annual accounts as at 31 December 1993, including the distribution of a net dividend of BEF 85 to non-AFV shares and of BEF 88.50 to AFV shares.
4. Discharge to members of the Board of Directors and to the Auditors :
   Proposals to discharge members of the Board of Directors and the Auditors from performance of their functions during the 1993 financial year.
5. Elections according to the Memorandum and Articles of Association :
   Proposal to elect Messrs Joseph KINSCH and Philippe LIOTIER and re-elect Messrs Philippe BODSON, Alain CHAIGNEAU, Valère CROES, Etienne DAVIGNON, Jean-Claude DEHOVRE, François de LAAGE de MEUX, Bernard EGLOFF, Jean GANDOIS, Maurice LIPPENS, Philippe MALET, Gérard MESTRALLET, Xavier MORENO, Patrick PONSOLLE, Piet VAN WAEYENBERGE, Karel VINCK and Gérard WORMS, as directors.

at the end of said meeting for the extraordinary general meeting to vote on the following agenda:

AGENDA

1. Capital increase:
   Proposal to increase the capital by incorporating the sum of BEF 5,357,138,422 to be withdrawn from the "share premium" account.
2. Creation of new "parts de réserve" shares :
   Proposal to create, to represent te above-mentioned capital increase, 6,418,279 new fully paid "parts de réserve" shares, with the same rights and benefits as the existing non-AFV "parts de réserve" shares, as from 1 January 1994.
3. Allotment :
   Proposal to allot the new "parts de réserve" shares to the shareholders in the proportion one new "part de réserve" share for ten old ones.
4. Acknowledgement "
   Proposal to acknowledge the effective carrying out of the capital increase.
5. First amendment to the Memorandum and Articles of Association :
   Proposals to amend Article 3 of the Memorandum and Articles of Association in accordance with the new capital situation.
6. *Special report by the Board of Directors explaining the purpose of and reasons behind the* proposal mentioned item 7 below.
7. Waiver of the benefits assigned to AFV "parts de réserve" shares :
   Proposal to irrevocably waive transferring to the income allocated as from 1 January 1995 to AFV "parts de réserve" shares:
   - the tax saving resulting from the exemption allowed under corporate tax;
   - the additional income (if any) resulting from the exemption in question which might apply to participated directly or indirectly.
8. *Second amendment to the Memorandum and Articles of Association* :
   Proposal to abolish the temporary provisions in paragraphs 5 to 7 of Article 8 of the Memorandum and Articles of Association to bring it in line with the resolution to be adopted on the preceding item.
9. Powers :
   Proposal to grant the Board of Directors all powers required to carry out the resolutions adopted.

In order to attend these meetings, shareholders should, in accordance with the terms of Article 19 of the Memorandum and Articles of Association, deposit their shares at the Company's registered office by Tuesday 10 May 1994 at the latest, or at one of the following banks :

In Belgium	:	Generale Bank
	:	Banque Indosuez Belgique
In France	:	Banque Indosuez
In Luxembourg	:	Banque Générale du Luxembourg
In Switzerland	:	Crédit Suisse
	:	Societe de Banque Suisse
	:	Union de Banques Suisses
In Germany	:	Deutsche Bank
	:	Generale Bank & Co

Without prejudice to the terms of Article 74, §2, para 2 and §3 of the coordinated laws on commercial companies, shareholders who wish to be represented should use the form of proxy which is available on request. All proxies should reach the company's registered office as soon as possible and by Monday 16 May 1994 at the very latest, which date was laid down by the Board of Directors in accordance with the terms of Article 20 of the Memorandum and Articles of Association.

G. MESTRALLET - Chief Executive Manager — E. DAVIGNON - Chairman — Brussels, 27 April 1994

COMMODITIES AND AGRICULTURE

Surprise vote clears way for NY exchange merger

By Laurie Morse in Chicago

Members of New York's Commodity Exchange (Comex) and the New York Mercantile Exchange (Nymex) have approved a historic merger, setting in motion a deal that will create the largest commodity exchange in the world.

The affirmative vote, announced on Monday night, surprised even the strongest backers of the merger plan, who engaged in furious last-minute lobbying to win the required two-thirds majority at the Comex.

In the end the plan passed by a wide margin of votes at both exchanges. Its strongest supporters are the futures dealing firms who stand to save millions in operating costs when the two markets combine administrative, surveillance, and clearing functions. The merger, scheduled for completion before October, could set the stage for other market combinations in New York.

Few in the futures industry believed that members of the Nymex and the Comex would put aside a long history of antagonism and vote to merge, despite the competitive advantages the plan.

As the futures business becomes more competitive globally, US exchanges in New York and Chicago have been struggling to cut costs. Neither exchange was forced into the merger – both have seen business rise dramatically in the past year, and membership prices at the Comex have doubled in the past 12 months as interest in gold and silver derivatives has surged.

The agreement will result in the Comex, primarily a precious metals futures exchange, being absorbed by the Nymex, the world's largest oil and energy futures market. Comex's 763 members will lose voting rights at the new exchange, but will be paid close to $70m over a period of five years for the equity in their seats. Nymex will also distribute $21m to its 816 members as a sort of dividend for approving the merger.

Comex members will retain their rights to trade existing products, and gain access to some of Nymex's contracts. *Nymex members will* gain some Comex trading rights in return.

Strategically, the merger will generate immediate competitive benefits. Mr Daniel Rappaport, Nymex chairman, has promised to consider establishing trading in zinc, nickel and aluminium contracts for Comex members, and to improve the spread margins between platinum and gold. Comex products will also be listed on Access, the Nymex after-hours electronic trading system.

Additionally, the merger will clear the way for a new futures trading facility in the New York area. The Nymex and Comex share a stuffy and overcrowded trading floor in the World Trade Centre. They had been seeking new sites independently, but will now combine efforts. Mr Rappaport said site selection could be completed in the 30 to 60 days.

LME ready to meet challenge

By Kenneth Gooding, Mining Correspondent

The London Metal Exchange *would immediately review its* approach to the North American market following the unexpected approval yesterday of a merger between Comex and Nymex, said Mr David King, the LME's chief executive.

"The LME has worked long and hard to gain global supremacy in the contracts it trades and if we have to work even harder to maintain that position, so be it," he commented.

"We will be more inclined to be pro-active rather than re-active [in the US] after this merger. The North American market is very significant for the LME," he added.

This attitude seemed to leave little room for any joint ventures between the US and London exchanges, although Mr King said the LME "wished the new organisation well". He said there were often contacts between international exchanges and the LME had a good relationship with Comex. But no specific joint projects had been discussed so far.

Mr King refused yesterday to give any indication of what the LME's plans might be, saying it would be unwise to alert the competition.

At present the only competition the LME faces in the US is from the Comex copper contract. Copper is deliberately excluded from LME-authorised warehouses in the US so as not to challenge this contract.

There is now likely to be increased pressure from some members for the LME to establish copper warehouse facilities in the US, which they see as an important step towards winning more North American copper hedging business.

The US accounts for about 25 per cent of the world's non-ferrous metals market activity but only 15 per cent of LME business, so there is obvious scope for business growth there.

Growing silver deficit forecast

By Kenneth Gooding

Silver demand is likely to outpace supply by as much as 250m troy ounces this year, according to Mr Dennis Wheeler, chairman of Coeur d'Alene Mines, the second-largest US producer of the metal.

Eventually this would be bound to push up prices, he said. Mr Wheeler pointed out that silver was the best-performing metal in price terms last year, moving up from a depressed $3.55 a troy ounce in 1992 to an average of $5.37.

He suggested that annual demand for silver, mainly from the photographic, jewellery and silver-ware industries, was still growing at a steady 2 per cent a year, requiring an extra 20m ounces a year, but low prices at the end of the 1980s had forced many mines to close.

Two mines in the Coeur d'Alene mining district of Idaho, in which his company has an interest – the Coeur and Galena silver mines – are at present temporarily shut down and on a care and maintenance basis. Mr Wheeler said it would need a sustained silver price of $6 an ounce to make it worth re-opening those mines. Last night silver closed in London up 5 cents at $5.18¾.

The Washington-based Silver Institute estimated last year that there was a 88.6m-ounce supply deficit in 1992 and predicted there might be one of 143.2m ounces in 1993 – a fourth consecutive year of deficit. The huge stocks of silver that have enabled this gap to be filled have also depressed the price.

The institute will be publishing its latest market review on May 12. Mr Wheeler said this would be likely to show that consumption of silver for jewellery and silverware had exceeded the metal's use in photography for the first time in 25 years.

He suggested that new technology still posed no big threat to the use of silver in photography. Last year's scare was caused by Polaroid's technology for silver-free graphic art applications, but this would reduce annual silver usage by only 15m ounces (out of demand approaching 600m ounces) even if 100 per cent of the business moved to the new process – which was unlikely because of its cost.

British Gas in trans-Andean project

By David Pilling in Santiago

British Gas has signed agreements with Argentine, Chilean and US partners to begin a $14m feasibility study of a proposed $1.65bn project to pipe natural gas across the Andes from Argentina's Neuquén fields to Chile.

Pending satisfactory results of the year-long study, British Gas would take a 30 per cent equity stake in the Gas de Chile consortium. Chilectra, the national utility, would have 35 per cent participation and lay the 8,000km distribution network to supply power plants, industry and homes at an estimated cost of $450m. The project's transmission and generation elements would cost a further $1.2bn.

British Gas would be technical operator of distribution and take charge of marketing gas, expected to come on stream in 1998. Construction could begin next year.

Amoco has decided to limit its gas exploration activities in Poland dropping a US$8m concession won 18 months ago on two tracts totalling 2.7m acres, one south of Warsaw and the other south east of Lublin near the country's eastern frontier, writes Christopher Bobinski in Warsaw.

The company blames a fall in oil and natural gas prices as well as the Polish government's failure to extend tax breaks.

Both Amoco and British Gas which won similar rights last autumn have made a start to full scale exploration operations contingent on the extension of tax concessions.

Amoco says it will nevertheless be bidding for new exploration tracts in Poland and will continue with a US$10m exploration programme for coal bed methane on a 120,000-acre patch in Silesia.

Amoco had originally planned to spend US$20m on exploration in Poland. British Gas is planning a US$30m programme and a Shell/Exxon consortium is also negotiating with the Poles for exploration rights.

Mr Mike Fulwood, regional manager of British Gas, said: "We are very much looking forward to working with Chilectra and other partners on the feasibility study.

The project has enormous implications for the energy industries of Chile and Argentina and we feel honoured to participate".

A second consortium, Gasoducto Transandino, would lay the 750-mile transmission pipeline at a cost of $600m. Tenneco *Gas of the US, which* would be a 25 per cent equity partner, would build and operate the pipeline.

Chilectra would take a further 35 per cent stake in Gasoducto Transandino, with 10 per cent each going to Chile's state oil concern, Enap, and YPF, the privatised Argentine oil group.

The consortia will also study the feasibility of building thermal power stations, with a total *capacity of 700Mw*, for which additional investment of *$600m will be needed*. The plants, which would consume 45 per cent of projected gas flows, are vital to the entire project.

The signing of agreements, after months of negotiations, was somewhat upstaged by the announcement last Friday of a rival scheme to supply Argen[illegible] *tine gas to Santiago through a* much shorter pipeline. The rival *project*, put at a relatively modest $500m, is being proposed by Canada's Novacorp and Chilean groups Chilgener, Gasco and Copec.

Oil flows from Ecuadorean Amazon field

By Raymond Colitt in Quito

Maxus, the US oil company, has started production in the first of a series of new oil fields in Ecuador's Amazon region. *The Tivacuno and surrounding* fields have estimated reserves of 1.4bn barrels, of which Maxus expects to extract about 200m.

As of yet the wells are being tested for their actual production capacity, but Maxus expects to be producing 30,000 barrels a day within a month, compared with the current 15,000 b/d.

Total investment for the exploration and exploitation of the area under concession from Ecuador's state company PetroEcuador amounts to *US$800m. According to Mr Wil*liam Hutton, general manager of Maxus Ecuador, it is the largest heavy crude oil exploitation project now being developed anywhere in the world.

With a crude oil density between 14.5 and 22 API, Maxus is the first oil company in Ecuador to produce *large* quantities of heavy crude. To enable the transportation of the oil it is first being heated and then mixed with lighter crude before being pumped through the *Trans-Ecuadorian* pipeline across the Andes to *the Pacific Coast.*

The nearby Bogi-Capiron field, with crude oil averaging an API of 18, will come on-stream within the next couple of months. The total production Maxus expects to reach is 60,000 b/d. The production cost per barrel is put at US$3.30.

Mr Francisco Acosta, the minister of energy, said the country was entering a new era of petroleum production. *He* emphasised the advanced technologies employed to pro*tect* the environment. The use of clustered well sites, synthetic road materials, and advanced, water-oil separators among other measures are to guarantee a minimal environmental impact.

Maxus enters the production phase more than eight years after the five-member consortium it belongs to signed the exploratory contract with PetroEcuador.

MARKET REPORT

Base metal prices still range-bound

London Metal Exchange trading saw all base metals prices hold in their recent ranges, although **COPPER** and **ALUMINIUM** drifted from earlier highs.

Dealers said copper was supported *early* on by *light* Chinese interest and a fall in LME warehouse stocks. The three months price reached $1,922 a tonne but drifted under commission house liquidation and speculative selling to settle at $1,914, down $11 from Monday.

Emerging physical interest and speculative buying stemmed a break below $1,280 *a tonne for three months* aluminium, following earlier Japanese selling.

PRECIOUS METAL markets maintained their early firmer tone, but activity was fairly thin as dealers continued to focus on the tension surrounding South Africa's elections.

London Commodity Exchange **COFFEE** futures failed to build on recent gains and closed with moderate losses, although traders said the overall trend remained bullish.

COCOA futures succumbed to further trade and investment fund selling.

Compiled from Reuter

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	+3,600	to 2,605,325
Aluminium alloy	-160	to 40,500
Copper	-2,350	to 478,625
Lead	-175	to 336,725
Nickel	+664	to 135,072
Zinc	+1,550	to 1,145,850
Tin	+360	to 26,000

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1257.5-8.5	1284-5
Previous	1263-4	1289-90
High/low		1295/1282
AM Official	1256-7	1283-3.5
Kerb close		1285-6
Open int.	259,416	
Total daily turnover	45,878	

■ ALUMINIUM ALLOY ($ per tonne); ■ LEAD ($ per tonne); ■ NICKEL ($ per tonne); ■ TIN ($ per tonne); ■ ZINC, special high grade ($ per tonne); ■ COPPER, grade A ($ per tonne); ■ LME AM Official £/$ rate; ■ HIGH GRADE COPPER (COMEX): [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild): [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.); ■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.); ■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.); ■ SILVER COMEX (100 Troy oz.; Cents/troy oz.): [illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel); ■ CRUDE OIL IPE ($/barrel); ■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.); ■ GAS OIL IPE ($/tonne); ■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu); ■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.): [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne); ■ WHEAT CBT (5,000bu min; cents/60lb bushel); ■ MAIZE CBT (5,000 bu min; cents/56lb bushel); ■ BARLEY LCE (£ per tonne); ■ SOYABEANS CBT (5,000bu min; cents/60lb bushel); ■ SOYABEAN OIL CBT (60,000lbs; cents/lb); ■ SOYABEAN MEAL CBT (100 tons; $/ton); ■ POTATOES LCE (£/tonne); ■ FREIGHT (BIFFEX) LCE ($10/index point): [illegible]

Minor Metals: [illegible]

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
May	845	-7	847	843	8,763	1,308
Jul	865	-9	872	865	20,540	2,216
Sep	884	-9	891	884	13,431	525
	[illegible]					

■ COCOA CSCE (10 tonnes; $/tonnes); ■ COCOA (ICCO) (SDR's/tonne); ■ COFFEE LCE ($/tonne); ■ COFFEE 'C' CSCE (37,500lbs; cents/lbs); ■ COFFEE (ICO) (US cents/pound); ■ No7 PREMIUM RAW SUGAR LCE (cents/lbs); ■ WHITE SUGAR LCE ($/tonne); ■ SUGAR '11' CSCE (112,000lbs; cents/lbs); ■ COTTON NYCE (50,000lbs; cents/lbs); ■ ORANGE JUICE NYCE (15,000lbs; cents/lbs): [illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100); ■ CRB Futures (Base: 1967=100): [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	71.075	-0.950	72.100	70.950	32,508	6,135
Aug	69.525	-0.975	70.550	69.100	12,409	1,375
Oct	71.175	-0.725	71.950	71.000	11,129	657
	[illegible]					

■ LIVE HOGS CME (40,000lbs; cents/lbs); ■ PORK BELLIES CME (40,000lbs; cents/lb): [illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME; ■ COPPER (Grade A) LME; ■ COFFEE LCE; ■ COCOA LCE; ■ BRENT CRUDE IPE: [illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jun); ■ OIL PRODUCTS NWE prompt delivery CIF (tonne); ■ OTHER: [illegible]

CROSSWORD

No. 8,439 Set by CINEPHILE

25, 3, 21 across, 23, 2, 27-3, 7-25, 28 and 1 down are perfect.

ACROSS

1 A dry conclusion – be there! (6)
4 Speed as in eastern islands causes stress (8)
10 Colours of wedding card (5,4)
11 It could be fatal to the eleventh century (5)
12 When it's *stoned*? (4)
13 Mint a coin like a sovereign (10)
15 Nature in perfect form? (7)
16 Regrettable barrier in Baghdad? (6)
19 Number in river with journalist to go over (6)
21 Number for energy is next (7)
23 Number of score at singular *game* (6-4)
25 Number of otherwise ancient city (4)
27 Number of strong point to audience (5)
28 Number for which I get honey (6-3)
29 Canine with either half as quid pro quo? (8)
30 Catalytic converter of Zen backed my point (6)

DOWN

1 Number makes barbarian fear when article's out of place (1,7)
2 Number dry after similar displacement, number of lives or .... (6-3)
3 .... number repeated in emergency (4)
5 Potential graduate of Cambridge, maybe (7)
6 Fellow missing from Oxford possibly: he yet turned up outside with dissident [illegible] (10)
7 Second number? (5)
8 Reaper with hammer? (6)
9 Skill with horse, for example in its hair (6)
14 *Keeping guard near box,* composed love-song outside gate (2,6-2)
17 Beaufort's subject, an English leader, awfully gloomy (9)
18 Thaw? Relax *restrictions* (8)
20 Something wrong about learner? Turn *aside* (7)
21 Keep keeping silver without culture (6)
22 Cut off air from itself? (6)
24 Bird's nest sounds well ventilated (5)
26 Knock out lunatic climber (4)

Solution 8,438

SPHINX TURBAN / RUNDOWN ESCORTS / UNPLEASANT OATS / STOCK NEGATION / APERITIF TEPEE / TIFF AMELIORATE / STRANGE IGNORED / YANKED SNEEZE

Of broking and jobbing the Pelikan's fond,
See how sweetly he puts your word into bond.
Pelikan

JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

US bonds upset UK equities before the close

By Terry Byland, UK Stock Market Editor

UK stocks closed firmly but well off their best levels yesterday after a session led by developments in markets in New York and elsewhere in Europe. Both equities and British government securities stumbled badly in the second half of the session when US Treasuries fell, albeit briefly, when the US Conference Board announced a sharp rise in its Consumer Confidence Index.

The early part of the trading saw saw only favourable developments as shares moved ahead in response to Wall Street's 57 point rise over and good recoveries in bond markets across Europe.

The trend was emphasised when German markets responded favourably to annualised growth of 15.2 per cent in March money supply, down from 17.5 per cent in February and restoring confidence that the Bundesbank will continue to cut rates; the German central bank confirmed that today's money market repos tender will be at a variable rate.

By mid-session, the FT-SE was 31.6 ahead at 3,137.7, and investors seemed little troubled by the comment from the chairman of the Confederation of British Industry that there was no need to cut UK base rates any further; the CBI had previously been a leading advocate for base rate reductions.

The stock market has lost most of its confidence in any further cut in rates but the pound's sharp rise after the CBI chairman's comments was discouraging for shares in the blue chip export companies.

Account Dealing Dates		
*First Dealings: Apr 11	Apr 25	May 16
Option Declarations: Apr 21	May 12	Jun 2
Last Dealings: Apr 22	May 13	Jun 3
Account Day: May 3	May 23	Jun 13

*New time dealings may take place from two business days earlier.

But the fall in Federal bonds, quickly mirrored in a weak start on Wall Street and a reversal of the 1½ point gains in UK gilt-edged securities, bit hard into the FT-SE, halving the morning's rise. Trading volume increased as shares turned back.

Markets recovered themselves later, although the Dow Industrial Average was still 7 points off when London went home. The final reading of 3,125.3 on the FT-SE Index showed a net gain of 19.2. The FT-SE Mid 250 Index closed 10.1 off at 3,777.7 as nervousness spread across the second line stocks.

With US markets closed today for the funeral of the former President Nixon, markets in Europe will await their next lead on Thursday, when the Bundesbank policy council meets and the postponed auction of US Treasury notes takes place.

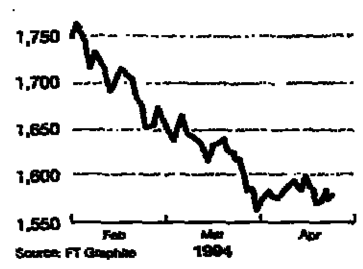
There was no shortage of active features to boost Seaq volume to 753.6m shares yesterday, compared with only 522.3m on Monday. Retail, or customer, business was worth £1.67bn on Monday, confirming the continued strength of underlying investment business in UK equities.

Shares in BAT Industries closed below the best as the stock market assessed the planned $1bn acquisition of American Tobacco.

Sector analysts saw it as a cash generative move for BAT, increasing its position in the large and still highly valuable US tobacco and cigarette markets.

Bid speculation and share placings continued to enliven the market background, and investors reacted strongly to the final profits disclosures of the 1994 first quarter. While the undertone of the market appeared firm, there was some disappointment that equities were still so clearly vulnerable to developments in global, and particularly US, bond markets. With a further tightening of credit policy by the US Federal Reserve still possible, analysts sounded cautious on the near-term outlook for a UK stock market now trying to focus on domestic fundamentals.

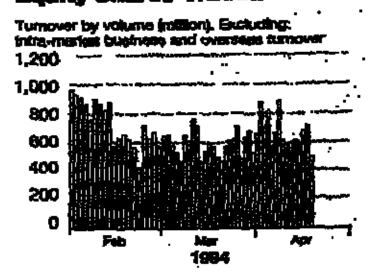
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key indicators

Indices and ratios

FT-SE 100	3125.3	+19.2	FT Ordinary index	2492.4	+14.5
FT-SE Mid 250	3777.7	+10.1	FT-SE-A Non Fins p/e	20.55	(20.50)
FT-SE-A 350	1587.9	+8.4	FT-SE 100 Fut Jun	3134.0	+32.0
FT-SE-A All-Share	1579.75	+8.01	10 yr Gilt yield	7.98	(7.94)
FT-SE-A All-Share yield	3.67	(3.69)	Long gilt/equity yld ratio:	2.20	(2.21)

Best performing sectors		Worst performing sectors	
1 Tobacco	+2.9	1 Engineering, Vehicles	-0.8
2 Merchant Banks	+1.7	2 Electronic & Elec	-0.6
3 Retailers, Food	+1.7	3 Pharmaceuticals	-0.4
4 Diversified Inds.	+1.6	4 Other Financial	-0.4
5 Food Manufacturers	+1.4	5 Breweries	-0.2

Welcome for BAT deal

The market had expected some move from BAT Industries but not necessarily in the US and not in cigarettes. Nevertheless, shares in the tobacco to insurance conglomerate leapt forward 23 on the news of its $1bn acquisition from American Brands. Some of the shine was removed with the release of US data prompting concerns of tighter interest rates. But BAT ended the day 12½ up at 456½p with 9.4m shares traded.

Analysts liked the deal, pointing out that BAT had boosted its share of the US market by paying less than 10 times American Tobacco's current year earnings.

Mr Nyren Scott Malden of BZW, the company's broker said: "It looks like a good deal. It is a business in which they have a relatively weak position and it strengthens that position." He added that it would give BAT around 18 per cent of the US market compared with 11 per cent previously.

Mr Chris Hitchings of UBS removed his sell recommendation and raised his 1995 forecast by £100m to £2.23bn. "This deal is strategically sensible, it's cheap and it's not Groupe Victoire," said Mr Hitchings referring to the persistent speculation that BAT had been preparing a bid for the French insurance company.

Kingfisher hit

Management changes at B&Q, the home improvement subsidiary of Kingfisher, unnerved the market and shares in the parent group fell 10 to 587p. Kingfisher, denying an earlier market story that the entire B&Q management had defected to the rival Do It All camp, said the three B&Q directors involved had all transferred to other positions within the group as part of the group's "normal developmental changes." However, some analysts took the moves as a sign that all was not well at B&Q amid talk of continuing tough trading in the DIY market. Sentiment was also said to be marred by disappointing French retail figures in respect of Darty, Kingfisher's electrical retail subsidiary.

Wellcome setback

Pharmaceutical group Wellcome led the drug sector down as its shares tumbled 14 to 499p, the first time they have been below 500p for more than three years. The slide was prompted by news that Rhone-Poulenc Rorer was making progress with a new anti-AIDS treatment.

However, analysts were bemused by the effect of the news pointing out that the French company had not even begun clinical trials. Mr Paul Woodhouse, of Smith New Court, said: "The market is not interested in vaguely encouraging news but anything vaguely bearish hits the shares."

Smith has just published positive research on the US sector arguing that investors have discounted the economic recovery there and are beginning switching back into defensive stocks. "We should be watching the UK sector very carefully over the next couple of months," said Mr Woodhouse. Glaxo and SmithKline Beecham shed a penny each to 553p and 375p.

Turnover in aerospace and motor component group Lucas Industries reached 40m as dealers said the company's pension fund sold 20m shares to Smith New Court at 206p. The broker placed them in the market at 208p. It was the highest turnover recorded in the shares since 1987. Lucas shares slipped 5 to 210p.

Full-year results from Sears saw the shares marked down, closing 8½ lower at 123p with a hefty 25m traded, the highest in over a year. Although the high street retailer produced figures largely in line with forecasts, expectations had been raised higher by recent talk of strong sales. In the event, Sears said trading remained tough, and analysts downgraded their forecasts slightly for 1994-5 to a range of £145m to £152m.

Two big rights issue stories in the leisure sector sent shares in the respective companies retreating sharply. Compass moved to stem the steep fall in the shares begun early in the session, confirming rumours of its interest in a US catering group. The proposed purchase of Canteen Corporation will cost the UK caterer $450m, half of which is to be funded from a rights issue. Compass shares closed 13 down at 316p, after 310p.

There was increased speculation that Airtours, the tour operator and holiday retailer, will also announce a rights issue to buy SAS Leisure, a subsidiary of the Swedish tour operator SAS, for around £94m. Airtours shares slid 16 to 466p.

A search for companies with large cash holdings and investments and liable to suffer, like AB Foods, from a sharp drop in investment income following the steep falls in gilt-edged stocks eventually focused on GEC, the UK's flagship electronics group.

Electronics specialists said GEC shares retreated for much of the session on a story that the company's investment returns on cash would be similarly affected. Analysts pointed out that GEC had no exposure to bonds and that its cash was mainly in top quality short-term deposits.

Nevertheless, one institution was said to have sold a block of 2m GEC into the market at 306p. With those shares washing around the market the stock price failed to respond to the general market upsurge, closing a net 4 off at 309p. Turnover reached 9.2m.

The absence of a much-rumoured bid for Lasmo, the oil exploration company, saw the company's shares ease back but failed to choke off the extremely heavy activity in the ordinary shares, nil-paids and traded options.

However, dealers said there were strong rumours that Lasmo would attract a bid before the week is out. The ordinaries closed 2 off at 153p with 18m traded, the nil-paids fell a penny to 49p on 5.5m traded. Turnover in the traded options was also high.

Talk of a break-up bid for Vickers inspired the shares to a rise of 6 to 194p with turnover at 3.7m. British Aerospace slipped back 7 to 478p on talk of continuing tough trading in the regional aircraft business at the group's agm.

Shell rose 4 to 728p after announcing it has sold an asset in the far east worth £350m in net income in the second quarter. The company refused to give details. BP rose 3 more to an all-time closing high of 391p on heavy turnover of 17m shares. Oil analysts said UK fund managers were having to fill in underweight positions in the stock.

MARKET REPORTERS:
Steve Thompson,
Chris Price,
Peter John.

■ Other statistics, Page 20

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (97).

[illegible] ... EXPLORATION & PROD (3) Goal, Monument, Ranger, OTHER FINANCIAL (1) Paramba, PRTNG, PAPER & PACKG (2) Sappi, Wyndeham Press, PROPERTY (3) Davies (DY), Rugby Estates, Warnford Inv., RETAILERS, FOOD (1) Greggs, RETAILERS, GENERAL (2) Liberty, Moss Bros, SUPPORT SERVS (1) Corporate Services, TEXTILES & APPAREL (2) Dawson Intl., Shiloh, TRANSPORT (1) Jacobs (JI), SOUTH AFRICANS (1) Anglo Amer. Inds.

NEW LOWS (98).

GILTS (2) BANKS (2) ABN Amro, Espirito Santo Fincl., BREWERIES (1) Haldn, BUILDING & CNSTRN (2) Amco, Barcom, DISTRIBUTORS (2) Harris (Ph), Time Products, DIVERSIFIED INDLS (1) Bennett & Fountain, ELECTRICITY (2) Eastern, Scott. Hydro, ELECTRNC & ELECT EQUIP (3) Amstrad, Critchley, Kode Intl., ENGINEERING (4) Beverley, Hall, Powerscreen Intl., Prospect Inds., EXTRACTIVE INDS (3) Burmine, Harmony, PosGold, FOOD MANUF (1) Albert Fisher, HEALTH CARE (1) London Intl., HOUSEHOLD GOODS (1) Ausprung Furniture, INSURANCE (10) INVESTMENT TRUSTS (5) INVESTMENT COMPANIES (11) LEISURE & HOTELS (3) Airtours, Do 6%p Prf., Compass, LIFE ASSURANCE (1) Utd Friendly B, MEDIA (1) EMAP, OIL, INTEGRATED (1) Mobil, OTHER FINANCIAL (7) OTHER SERVS & BUSNS (1) Cape Range, PHARMACEUTICALS (3) Glaxo, Grampian, Wellcome, PRTNG, PAPER & PACKG (1) Crest Packaging, PROPERTY (4) Green (E), Herring Baker Harris, London Securities, Southend Wrts., RETAILERS, FOOD (2) Brake Bros., Shoprite, RETAILERS, GENERAL (2) Christies Intl., Lloyds Chemists, TEXTILES & APPAREL (1) Readicut, TRANSPORT (3) Tiphook, Transport Devlpt., Vard, WATER (1) Thames, AMERICANS (3) CANADIANS (1).

Due to an error Tuesday's edition carried a table of New Highs and Lows for 1994 unchanged from the Saturday's (23/4) edition. We apologise to our readers.

EQUITY FUTURES AND OPTIONS TRADING

Trading in the London futures market took its cues from the US where the release of some confidence data enlivened an otherwise lacklustre day, writes Peter John.

A strong performance by the US equity and bond markets on Monday night sparked off an early rise in London which took the FT-SE futures contract for June to a high of 3,146.

Then the contract traded within an oppressive 19-point range for the rest of the morning and early afternoon attracting minimal interest.

When dealing began in New York, the release of US consumer confidence figures reactivated concerns that the Federal Reserve might tighten interest rates and acted like a bucket of cold water on Treasury, bund and gilt prices.

As a result, the Liffe contract slipped back sharply to trade at a discount of about 8 points to cash and some 12 points below the current estimated fair value.

However, the nervousness proved overdone and in the last half hour of trading June re-established itself, and closed 9 above cash at 3,134 with turnover very thin at just over 10,000 lots.

Traded options volumes of 27,793 lots was up on Monday's desultory level. Guinness saw 2,678 lots changing hands but the volume principally represented rolling over of contracts from May to August.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3128.0	3134.0	+32.0	3146.0	3114.0	11256	52644
Sep	3148.0	3152.5	+32.0	3148.0	3148.0	2	719
Dec	-	3163.5	+32.0	-	-	0	210

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3790.0	3785.0	+9.0	3790.0	3780.0	90	3544

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	3788.0	-	-	-	-	913

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3125) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	2,000	55	
Abbey National†	3,200	443	+7
Albert Fisher	4,800	54	-3
Allied-Lyons†	1,900	580	+3
Anglian Water	525	485	-1
Argos	81	386	
Argyll Group†	7,000	282	+4
Arjo Wiggins†	807	303	-1
Assoc. Brit. Foods†	424	589	+6
[illegible]			

FT-SE Actuaries Share Indices — The UK Series

[illegible]

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	56	5	13
Other Fixed Interest	5	2	8
Mineral Extraction	97	39	65
General Manufacturers	172	95	403
Consumer Goods	52	38	104
Services	114	71	332
Utilities	25	11	10
Financials	81	119	278
Investment Trusts	134	38	202
Others	66	35	29
Totals	804	449	1444

Data based on those companies listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FINANCIAL TIMES EQUITY INDICES

[illegible]

FT GOLD MINES INDEX

[illegible]

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		£21⅞	-⅛	£25⅞	£21⅞	6,892	5.1	ф
ANZ A$		235¾	+1¾	278¼	220½	3,134	3.9	18.5
Abbey National		443xd	+7	523	432	5,812	4.0	14.9
Allied Irish I£		249xd	—	334	241	1,834	5.1	9.5
Anglo Irish I£		65	—	70	65	166.3	7.8	10.0
Argentaria Y		709¼	+3¾	789¼	628	16,368	0.7	–
Banco Bil Viz Pta		£15⅞	+⅛	£18⅞	£14⅞	3,692	5.1	7.2
Banco Sant Pta		£31⅝	—	£34⅝	£29⅞	3,613	4.3	ф
Bk Ireland I£		265	+4	319	246	1,269	4.7	19.5
Bank Scotland		184	+1	247	180	2,148	3.2	25.0
9¼pc Pf		128½xd	—	141½	120½	120.8	9.8	–
9¾pc Pf		127xd	—	149½	127	127.0	9.6	–
Barclays		516xd	+7	640	487	8,379	3.7	21.4
Dai Ichi Kan Y		£12⅛	-⅛	£12⅞	£10⅞	37,585	0.5	66.6
Deutsche DM		£311	-⅛	£344¼	£297¼	14,811	1.9	–
Espirito Santo		£16⅞	-⅛	£20⅞	£16⅞	281.2	4.2	4.5
First Nat Fin		71	-1	90	60	117.6	2.8	–
8.3pc Cv Pf		83	—	90	77	5.58	8.5	–
7pc Cv Pf		146	+½	171	123	60.3	6.0	–
Fuji Bank Y		1477	+2½	1540¼	1152½	42,764	0.4	–
HSBC HK		747½xd	+2½	1133	740	13,128	3.9	ф
HSBC (75p Shs)		726xd	+3	1113	720	6,158	4.0	ф
Lloyds		598xd	+1	660	532	7,611	4.7	12.5
Mitsubishi Y		£17⅜	-⅛	£18⅞	£15⅝	50,311	0.3	–
Mits Tst & Bk Y		978½	-7	1034¼	887½	12,839	0.6	15.8
Mitsui Tst & Bk Y		713½	+½	811¼	614	8,548	0.7	34.8
Nat Aust A$		570½	+9	620¼	537¼	7,901	4.2	13.9
NatWest		446xd	+7	522	438	7,477	6.2	10.2
Ottoman FFr		£29½	-¼	£33	£27¾	142.5	5.1	6.9
Rsl Bk Scotland		383	+½	528	382½	3,892	3.8	17.3

CHEMICALS

BREWERIES

DISTRIBUTORS

BUILDING & CONSTRUCTION

DIVERSIFIED INDUSTRIALS

BUILDING MATS. & MERCHANTS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Cont.

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1994 high	1994 low	Yld Gr's	NAV	Dis or Pm(-)
Perpetual Japan	□	117½	+1	119½	89	–	108.2	-7.9
Warrants	□	77	—	88	47	–	–	–
Personal Assets	†	£90xd	—	£94	£86¾	2.8	8469.3	-5.9
Pilot Inv	♣□	144	—	153	125½	9.4	134.8	-8.4
Warrants	□	60	+1	69	44	–	–	–
C	□	108½	—	117	102	–	108.4	-.1
Primadona		275	+2	283	267	2.0	320.7	14.3
Ptarmigan Intl	♣□	235	—	278	232	0.4	255.7	8.1
Warrants		85	—	140	85	–	–	–
RIT Capital	□	178	+1	209	170	0.8	216.4	16.7
2½pc Cv Ln 2000		£174	+½	£186½	£170½	1.4	–	–
Radiotrust	□	85	—	88	70	–	71.0	-16.5
Rights & Iss Inc		158	—	164	153	7.0	–	–
Cap		475	—	635	440	2.2	538.7	11.8
Riv & Merc Am Inc	N	112xd	—	121	111	8.7	–	–
Cap	□	34	—	38	37½	–	44.8	24.1
Warrants		14	—	17	13	–	–	–
Riv & Mer Ext	N□	120xd	—	147	129	7.5	121.8	-6.5
Warrants		33	—	49	29	–	–	–
Zero Div Pf		112½	—	118½	112½	–	–	–
Riv & Mer Geared		90xd	—	116	93	9.5	–	–
Prfd Cap 1999		28½	—	35	25½	–	37.4	28.1
Riv & Merc Smlr	N□	145	—	178	142	3.4	147.4	1.8
Warrants		63	—	77	47	–	–	–
Riv & Merc Tst Inc	N□	119	—	127	114	8.7	–	–
Cap	□	138	—	158	122	–	214.0	39.3
Warrants		24	—	40	32	–	–	–
Do. Stepd Prf	N	164¼xd	—	183	154	4.8	–	–
River Plate Inc	N□	111	—	113	106	10.9	–	–
Cap		95	—	118	95	–	169.5	44.0
Warrants		5	—	11	5	–	–	–
Zero Div Pf		83¼	—	85¼	83¼	–	–	–
St Andrew	N	331xd	—	343	290	2.9	331.1	0.0
St David's Inc	N	141	—	142	124	13.1	–	–
Cap		188	—	223	187	–	292.0	35.3
Zero Prf		145	—	151½	143½	–	–	–
Saracen Value	□	92	—	98	89	–	95.8	4.0
[illegible]								

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's
Toronto-Dom		10⅞xd	+⅛	11⅞	9⅝	3,085	3.9
Trans Can Pipe	♥	8⅝	+⅛	10⅜	8⅛	1,580	4.7

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£25¼	+2¾	£25¼	£19½	1,612	2.9	18.4
Barlow		£4⅛	+⅛	£4⅝	£3⅞	820.4	7.0	8.5
Gold Flds Prop R		92	+7	105	78	9.41	10.8	8.2
MK Props	s	90	+3	95	87	3.82	9.9	37.0
SASOL	♥	344	+18	381	280	1,849	4.5	–
SA Brews		£13⅞	+⅜	£15⅝	£10	7,264	2.0	22.2
Tiger Oats		694	+31	838	538	1,042	2.4	14.7
Tongaat-Hulett	†	570	+34	589	434	425.6	2.6	16.9

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ¶ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. ... n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. ‡ Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Not subject to ACT. z Dividend yield includes a special payment. ... prospectus or other official estimates for 1993. K Yield based on prospectus or other official estimates for 1994. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1993-94. N Figures based on IIMR 'Headline Earnings'. ... T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1255 a year for each security shown, subject to the Editor's discretion.

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Metropolitan Unit Trust Mngrs Ltd (1000)F
2 Darkes Lane, Potters Bar EN6 1AJ. 0707 662230

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Eurogrowth Plus	6	116.46	116.83	124.28	+0.42	0.86
International Strategy	6	66.55	67.21	71.50	+0.24	0.07
Special Accum	6	120.82	123.36	131.25	+1.51	0.00
UK Growth Acc	6	80.73	81.89	86.90	+0.14	1.84
UK Income Acc	5¼	103.20	103.51	110.12	+0.14	4.61
Do Income	5¼	76.17	76.40	81.28	+0.26	4.61

Millennium Fund Management Ltd (1000)F
1 Harbour Exchange Square, E14 9GE 071-512 0410

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
International	5½	12.15	12.26	13.03	—	—

Pilgrim Unit Trust Mngmt Ltd (0830)F
39 Pilgrim Street, Newcastle upon Tyne NE1 6RD
Administration & Dealing:
Unit Trust Accounting & Management Ltd
1 White Hart Yard, London SE1 1NX 071-407 5966

Pointon York UT Mngrs (0800)F
The Crescent, King St, Leicester LE1 6RX 0533 550540

Portfolio Fund Management Ltd (0900)F
1 White Hart Yard, London SE1 1NX 071-407 5966

Effective initial Charge reduces for investments over £5,000

Premium Life Unit Tst Mngrs Ltd (1400)F
37 Perrymount Rd, Haywards Heath 0444 458721

Principal Unit Trust Mngmt Ltd (1600)F
16 South Park, Sevenoaks, TN13 1AN 0732 740700

Prolific Unit Tst Mngrs Ltd (1100)F
Walbrook Hse, 23 Walbrook, EC4N 8LD

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✦) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

هكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

OTHER UK UNIT TRUSTS

INSURANCES

FT MANAGED FUNDS SERVICE

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Scottish Amicable - Contd.

Scottish Equitable plc

28 St Andrew Sq, Edinburgh 031-556 9101

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Group

Scottish Widows' Group

Standard Life Assurance Company

Sun Alliance Group

Sun Alliance Group - Contd.

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Albany International Assurance Ltd

Century Life International Ltd

Eagle Star Intl Life

Equitable Life

Fidelity

Royal Life Intl. Ltd

MANAGEMENT SERVICES

Capital Trust Financial Management

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Jupiter Tyndall (Bermuda) Ltd

Newport Investment Management

Orbis Fund Limited

GUERNSEY (SIB RECOGNISED)

Lazard Freres Asset Management (CI) Ltd

Lloyds Bank Fund Managers (Guernsey) Ltd

Merrill Lynch Guernsey

M & G (Guernsey) Ltd

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BT Fund Managers (Ireland) Ltd

GAM Fund Management Ltd

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ISLE OF MAN (SIB RECOGNISED)

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MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Sterling finishes firmer

Sterling had a better day on the foreign exchanges yesterday, bolstered by the CBI quarterly industrial trends survey which suggested that interest rates might have bottomed, *writes Philip Gawith.*

The UK currency finished nearly two pfennigs higher in London at DM2.5226 against the D-Mark from DM2.5049. It also closed one cent higher, at $1.5015, against the US dollar,the first time in six weeks that it has closed above $1.50. The sterling index finished six basis points higher at 80.5.

Elsewhere, in a quiet day on the markets, the dollar remained weak. It closed at DM1.6801 against the D-Mark, from DM1.6794, but was weaker against the yen, finishing at Y102.925 from Y103.225.

The D-Mark was generally stronger in Europe, helped by the market view that there is little scope for a further downward move in interest rates. It closed at L958.4 against the Italian lira, from L957.7, and Pta81.69, from Pta81.52, against the Spanish peseta. The French franc firmed to FFr3.932 from FFr3.435.

■ Despite the stronger performance of sterling, worries about the trade balance and political uncertainty mean that there is little enthusiasm for the UK currency. Yesterday's move appears mostly to have been a response to comments by the CBI that a further cut in UK rates was unnecessary.

Although the survey showed manufacturing output had risen at its fastest rate for five years, economists were sceptical about its contents, noting that the balance of optimism had fallen.

In its daily money market operations, the Bank of England offered £770m assistance at the established rate of 5¼ per cent, after forecasting a shortage of £750m.

Sterling futures finished the day slightly firmer, with the June contract finishing at 94.58 from 94.57. Traders said the market had been fairly "whippy", with volumes disappointing. There was some support for the longer contracts.

■ The Bundesbank repo today will be closely watched. Yesterday the German central bank announced both a one and a thirteen day variable repo. The thirteen day period is the result of a public holiday, while the one-day repo appears to represent an effort by the Bundesbank to prevent technical factors impeding the downward path of interest rates.

Ms Phyllis Reed, fixed income strategist at BZW, said she believed the Bundesbank had become worried about the bearish tone of German interest rate markets. In the case of the euromark futures, for example, the past two weeks have seen the bottom of the German rate curve come forward from March 1995 to September 1994.

The September 1994 contract finished at 94.85, discounting three month money at 5.15 per cent then. This is only 25 basis points below the current rate, which many analysts believe reflects too pessimistic a view on the outlook for German rates.

Call money yesterday firmed slightly to 5.35/5.45 per cent from 5.30/5.40 per cent. This is still well below the current repo rate of 5.58 per cent. Predictions about how much the Bundesbank will allow the repo rate to fall vary from 6-12 basis points. Last week the fall of 12 basis points was more than the market expected.

Ms Reed said she favoured another similar fall, on the grounds that the German recovery remains fairly fragile and a turnaround in sentiment about rates could damage the recovery, by denting confidence. This was why the Bundesbank had allowed the call rate to stay fairly low, and taken steps to prevent the monthly round of pension payments emerging as an obstacle to lower rates.

If this interpretation is correct, it offers the unusual spectacle of the Bundesbank coaxing the market to take rates lower - the reverse of what normally applies.

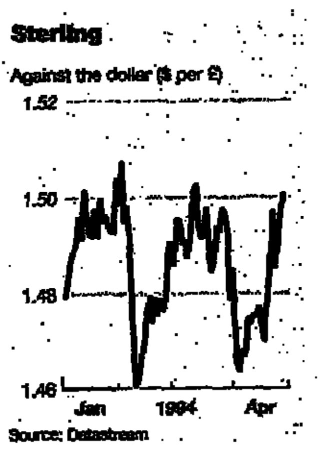
■ Even a large fall in the German repo rate today is unlikely to help the dollar shake off its woes. Yesterday the US currency was helped by a sharp jump in the April consumer confidence reading to 91.7 from 86.7. Economists were forecasting a slight decline in the reading.

The rise was shortlived, however, as the knock-on effect in US debt markets soon curbed the dollar's attempt at a revival.

Developments in Japan are not helping the dollar either, with prime minister elect Mr Tsutomu Hata weakened by the SDP quitting the ruling coalition. Mr Robert Thomas, currency strategist at Natwest Markets, said the fiscal stimulus package would probably still be passed, but "there must be doubt about whether Mr Hata will be more able on the trade side than Mr Hosokawa."

■ South Africa's two currencies were buoyant as voting began in the country's first democratic elections. The commercial rand rose by nearly three cents to R3.585 against the dollar from R3.6138.

The more thinly traded financial rand, the vehicle for foreign investment, rose by 20 cents to R4.695 from R4.895. This represents a 17 per cent appreciation from the low of R5.6435 on April 11.



■ **Pound in New York**

Apr 26	Latest	Prev. close
£ spot	1.5045	1.4915
1 mth	1.5029	1.4899
3 mth	1.5008	1.4878
1 yr	1.4960	1.4829

■ **OTHER CURRENCIES**

Apr 26	£	$
Hungary	154.198 - 154.376	102.730 - 102.780
Iran	2609.00 - 2615.00	1748.00 - 1750.00
Kuwait	0.4458 - 0.4468	0.2970 - 0.2975
Poland	33539.9 - 33592.2	22345.0 - 22365.0
Russia	2728.22 - 2732.73	1817.00 - 1820.00
U.A.E.	5.5128 - 5.5158	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Apr 26		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.7500	+0.1087	403 - 596	17.7700	17.6202	17.7462	0.3	17.7406	0.2	-	-	113.5
Belgium	(BFr)	51.9654	+0.3585	316 - 992	52.0000	51.5065	52.0004	-0.8	52.0304	-0.5	51.9904	0.0	114.7
Denmark	(DKr)	9.9197	+0.0793	149 - 245	9.9260	9.8365	9.9296	-1.2	9.9431	-0.9	9.9529	-0.3	114.3
Finland	(FM)	8.1970	+0.032	767 - 973	8.2000	8.1300	-	-	-	-	-	-	81.6
France	(FFr)	8.6589	+0.0559	548 - 650	8.6705	8.5932	8.8659	-0.9	8.6759	-0.7	8.6679	0.0	107.1
Germany	(DM)	2.5226	+0.0177	214 - 238	2.5260	2.5042	2.5237	-0.5	2.5243	-0.3	2.5122	0.4	122.9
Greece	(Dr)	370.195	+2.628	848 - 543	370.600	367.510	-	-	-	-	-	-	-
Ireland	(I£)	1.0310	+0.0038	297 - 323	1.0347	1.0266	1.0319	-1.0	1.0332	-0.9	1.0367	-0.6	103.7
Italy	(L)	2418.32	+18.73	661 - 002	2420.25	2393.55	2424.77	-3.2	2434.47	-2.7	2470.37	-2.2	78.1
Luxembourg	(LFr)	51.9654	+0.3585	316 - 992	52.0000	51.5065	52.0004	-0.8	52.0304	-0.5	51.9904	0.0	114.7
Netherlands	(Fl)	2.8359	+0.0191	342 - 376	2.8385	2.8160	2.8399	-0.4	2.8372	-0.2	2.8246	0.4	118.2
Norway	(NKr)	10.9610	+0.0768	550 - 669	10.9672	10.8794	10.9553	0.6	10.9679	-0.3	10.959	0.0	84.7
Portugal	(Es)	259.234	+2.165	073 - 395	259.550	256.882	260.209	-4.5	262.154	-4.5	-	-	-
Spain	(Pta)	206.081	+1.835	937 - 225	206.225	204.142	206.581	-2.9	207.496	-2.7	210.811	-2.1	85.2
Sweden	(SKr)	11.7833	+0.0609	737 - 928	11.8010	11.6835	11.8043	-2.1	11.8403	-1.9	11.9593	-1.5	78.3
Switzerland	(SFr)	2.1535	+0.0181	524 - 546	2.1570	2.1386	2.1515	1.1	2.1475	1.1	2.1184	1.6	116.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.5
Ecu	-	1.3058	+0.008	048 - 068	1.3078	1.2968	1.307	-1.1	1.3084	-0.8	1.3078	-0.2	-
SDR†	-	0.944225	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5016	+0.0098	010 - 022	1.5024	1.4868	-	-	-	-	-	-	-
Brazil	(Cr)	1855.46	+44.97	482 - 609	1856.12	1807.00	-	-	-	-	-	-	-
Canada	(C$)	2.0669	+0.0061	658 - 680	2.0685	2.0468	2.0678	-0.6	2.0713	-0.9	2.0879	-1.0	87.3
Mexico	(New Peso)	5.0150	+0.0041	058 - 242	5.0265	4.9716	-	-	-	-	-	-	-
USA	($)	1.5015	+0.0099	010 - 020	1.5040	1.4885	1.4999	1.3	1.4979	1.0	1.493	0.6	65.6
Pacific/Middle East/Africa													
Australia	(A$)	2.0856	+0.0057	841 - 870	2.0885	2.0736	2.0841	0.9	2.0817	0.7	2.0756	0.3	-
Hong Kong	(HK$)	11.6003	+0.0755	957 - 049	11.6050	11.5010	11.5878	1.3	11.5819	0.6	11.5328	0.6	-
India	(Rs)	47.1002	+0.314	789 - 215	47.1225	46.6940	-	-	-	-	-	-	-
Japan	(Y)	154.542	+0.577	453 - 631	154.640	153.270	154.152	3.0	153.417	2.9	149.927	3.0	188.7
Malaysia	(M$)	4.0443	+0.031	422 - 464	4.0465	4.0076	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6152	+0.0133	127 - 176	2.6183	2.5967	2.6181	-1.3	2.6224	-1.1	2.631	-0.6	-
Philippines	(Peso)	41.3439	+0.274	049 - 829	41.5911	40.6657	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6312	+0.0378	291 - 333	5.6340	5.5826	-	-	-	-	-	-	-
Singapore	(S$)	2.3356	+0.0134	341 - 371	2.3378	2.3167	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.3829	-0.0072	796 - 862	5.3890	5.3294	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.0486	-0.2516	397 - 594	7.2834	6.9012	-	-	-	-	-	-	-
South Korea	(Won)	1211.79	+7.96	131 - 226	1212.31	1201.36	-	-	-	-	-	-	-
Taiwan	(T$)	39.6245	+0.2402	114 - 378	39.6400	39.2800	-	-	-	-	-	-	-
Thailand	(Bt)	37.8679	+0.251	402 - 955	37.8970	37.5550	-	-	-	-	-	-	-

†SDR rate for Apr 25. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Apr 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	11.8215	-0.006	190 - 240	11.8865	11.8050	11.8377	-1.6	11.854	-1.1	11.8315	-0.1	102.9
Belgium	(BFr)	34.6090	+0.0095	980 - 200	34.6930	34.5610	34.667	-2.0	34.739	-1.5	34.789	-0.5	104.3
Denmark	(DKr)	6.6065	+0.0091	055 - 075	6.6192	6.5980	6.62	-2.5	6.6402	-2.0	6.6595	-0.8	103.3
Finland	(FM)	5.4526	-0.0149	475 - 578	5.4790	5.4457	5.4579	-1.2	5.4661	-1.0	5.4801	-0.5	76.3
France	(FFr)	5.7675	-0.001	660 - 690	5.7860	5.7630	5.7787	-2.3	5.7922	-1.7	5.8032	-0.6	103.6
Germany	(D)	1.6801	+0.0007	798 - 803	1.6897	1.6790	1.6827	-1.8	1.6854	-1.3	1.6827	-0.2	104.6
Greece	(Dr)	246.550	+0.05	400 - 700	247.150	246.350	250.3	-18.3	257.675	-18.0	286.55	-16.2	70.2
Ireland	(I£)	1.4564	+0.0043	550 - 577	1.4585	1.4448	1.4534	2.4	1.4494	1.9	1.4394	1.2	-
Italy	(L)	1610.60	+1.81	000 - 120	1612.00	1605.75	1616.65	-4.5	1625.4	-3.7	1654.85	-2.7	78.9
Luxembourg	(LFr)	34.6090	+0.0095	980 - 200	34.6930	34.5610	34.667	-2.0	34.739	-1.5	34.789	-0.5	104.3
Netherlands	(Fl)	1.8887	+0.0002	882 - 892	1.8973	1.8860	1.891	-1.5	1.894	-1.1	1.8906	-0.1	103.8
Norway	(NKr)	7.3000	+0.0028	985 - 015	7.3180	7.2958	7.3087	-1.4	7.3212	-1.2	7.332	-0.4	94.8
Portugal	(Es)	172.650	+0.3	600 - 700	173.180	172.300	173.95	-9.0	175.9	-7.5	181.15	-4.9	93.1
Spain	(Pta)	137.250	+0.315	200 - 300	137.510	137.010	137.73	-4.2	138.525	-3.7	140.855	-2.6	80.8
Sweden	(SKr)	7.8477	-0.0115	439 - 514	7.8868	7.8436	7.8712	-3.6	7.9105	-3.2	8.0187	-2.2	81.7
Switzerland	(SFr)	1.4343	+0.0026	340 - 345	1.4400	1.4340	1.4521	-14.9	1.4338	0.1	1.4188	1.1	103.4
UK	(£)	1.5015	+0.0099	010 - 020	1.5040	1.4885	1.4999	1.3	1.4979	1.0	1.493	0.6	86.6
Ecu	-	1.1489	+0.0006	494 - 504	1.1510	1.1447	1.1479	2.1	1.1449	1.8	1.1419	0.7	-
SDR†	-	1.41030	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0001	-0.0001	000 - 001	1.0002	1.0000	-	-	-	-	-	-	-
Brazil	(Cr)	1235.74	+21.81	573 - 575	1235.75	1235.70	-	-	-	-	-	-	-
Canada	(C$)	1.3766	-0.0051	763 - 768	1.3780	1.3753	1.3789	-2.0	1.3829	-1.8	1.3976	-1.5	83.4
Mexico	(New Peso)	3.3400	-0.0195	350 - 450	3.3420	3.3300	3.341	-0.4	3.3428	-0.3	3.3502	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	100.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3890	-0.0054	885 - 895	1.3943	1.3883	1.3902	-1.1	1.3949	-1.7	1.4055	-1.2	87.4
Hong Kong	(HK$)	7.7258	-0.001	253 - 263	7.7268	7.7250	7.7288	-0.5	7.7348	-0.5	7.7595	-0.4	-
India	(Rs)	31.3688	+0.0013	650 - 725	31.3725	31.3650	31.4338	-2.5	31.5688	-2.6	-	-	-
Japan	(Y)	102.925	-0.3	900 - 950	103.250	102.850	102.77	1.8	102.425	1.9	100.405	2.4	148.4
Malaysia	(M$)	2.6935	+0.0026	930 - 940	2.6945	2.6885	2.6865	3.1	2.671	3.3	2.7335	-1.5	-
New Zealand	(NZ$)	1.7417	-0.0026	406 - 428	1.7440	1.7403	1.7429	-0.9	1.7474	-1.3	1.7693	-1.6	-
Philippines	(Peso)	27.5350	-	850 - 850	27.6850	27.3850	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	+0.0002	502 - 505	3.7505	3.7500	3.7511	-0.2	3.7534	-0.3	3.7649	-0.4	-
Singapore	(S$)	1.5555	-0.0014	550 - 560	1.5570	1.5550	1.5549	0.5	1.5544	0.3	1.553	0.2	-
S Africa (Com.)	(R)	3.5850	-0.0288	840 - 860	3.6155	3.5780	3.6015	-5.5	3.6275	-4.7	3.7205	-3.8	-
S Africa (Fin.)	(R)	4.6950	-0.2	900 - 000	4.8200	4.6264	4.729	-8.7	4.789	-8.0	-	-	-
South Korea	(Won)	807.050	-0.05	000 - 100	807.200	807.000	810.05	-4.5	813.55	-3.2	832.05	-3.1	-
Taiwan	(T$)	26.3900	-0.015	900 - 900	26.4000	26.3800	26.4555	-3.0	26.556	-2.5	-	-	-
Thailand	(Bt)	25.2200	-	100 - 300	25.2300	25.2100	25.3	-3.8	25.425	-3.3	25.945	-2.9	-

†SDR rate for Apr 25. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan indices shown for Apr 25. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Apr 26		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.09	16.66	4.855	1.984	4653	5.457	21.09	498.7	396.6	22.67	4.145	1.924	3.977	2.860	297.3	2.513
Denmark	(DKr)	52.39	10	8.730	2.543	1.039	2438	2.859	11.05	261.3	207.8	11.88	2.171	1.008	2.084	1.514	155.7	1.317
France	(FFr)	60.01	11.45	10	2.913	1.191	2792	3.275	12.66	299.3	238.0	13.60	2.487	1.155	2.387	1.734	178.4	1.506
Germany	(DM)	20.60	3.932	3.432	1	0.409	958.4	1.124	4.344	102.7	81.69	4.669	0.854	0.396	0.819	0.595	61.24	0.518
Ireland	(I£)	50.41	9.622	8.400	2.447	1	2345	2.751	10.63	251.4	199.9	11.43	2.089	0.970	2.005	1.457	149.9	1.267
Italy	(L)	2.149	0.410	0.358	0.104	0.043	100.	0.117	0.453	10.72	8.524	0.487	0.089	0.041	0.085	0.062	6.390	0.054
Netherlands	(Fl)	18.33	3.498	3.054	0.890	0.364	852.6	1	3.865	91.40	72.67	4.154	0.760	0.353	0.729	0.530	54.48	0.461

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

EMS EUROPEAN CURRENCY UNIT RATES

Apr 26	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.808628	0.791620	-0.000495	-2.10	5.12	14
Belgium	40.2123	39.7969	+0.0098	-1.03	3.98	7
Netherlands	2.19672	2.17399	+0.00229	-1.03	3.98	-
Germany	1.94964	1.93342	+0.00134	-0.83	3.77	-
France	6.53883	6.63411	-0.00019	1.46	1.43	-12
Denmark	7.43679	7.59077	+0.00338	2.07	0.82	-14

WORLD INTEREST RATES

UK INTEREST RATES

BASE LENDING RATES

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WORLD STOCK MARKETS

EUROPE

AUSTRIA (Apr 26 / Sch)

BELGIUM/LUXEMBOURG (Apr 26 / Frs.)

DENMARK (Apr 26 / Kr)

FINLAND (Apr 26 / Mkk)

FRANCE (Apr 26 / Frs.)

GERMANY (Apr 26 / Dm.)

ITALY (Apr 26 / Lire)

NETHERLANDS (Apr 26 / Fl.)

NORWAY (Apr 26 / Kroner)

SPAIN (Apr 26 / Pts.)

SWEDEN (Apr 26 / Kronor)

SWITZERLAND (Apr 26 / Frs.)

PACIFIC

JAPAN (Apr 26 / Yen)

HONG KONG (Apr 26 / H.K.$)

MALAYSIA (Apr 26 / MYR)

SINGAPORE (Apr 26 / S$)

AUSTRALIA (Apr 26 / Aust$)

NORTH AMERICA

CANADA

TORONTO (Apr 26 / Can $) 4 pm close

MONTREAL (Apr 26 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Apr 26 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, April 26, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Pacific Metals	8.3m	470	+41	Nippon Steel	2.6m	341	-3
Sumitomo Coal	4.5m	955	-10	Furukawa Elec	2.2m	690	+15
Hitachi	3.4m	956	-10	Matsushita	2.0m	1660	-40
NEC	3.1m	1130	-20	Toshiba	2.0m	765	-8
Nippon Denko	*2.7m*	*474*	*+24*	*M'bishi Heavy*	*2.0m*	*678*	*-7*

INDICES

US INDICES

Day's high 3706.38 (3683.84) Low 3648.68 (3640.94) (Actual)

Standard and Poors							
Composite $	452.71	447.63	446.73	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials	525.52	519.09	518.82	580.59 (2/2)	510.05 (21/4)	580.59 (2/2/94)	3.62 (21/6/32)
Financial	43.82	43.60	43.95	48.56 (31/1)	41.39 (4/4)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	250.47	247.95	248.15	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	435.97	433.31	431.13	487.39 (2/2)	427.80 (20/4)	487.96 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	730.80	722.56	718.74	803.93 (18/3)	705.51 (20/4)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Apr 22	Apr 15	Apr 8	Year ago
Dow Jones Ind. Div. Yield	2.79	2.77	2.78	3.01
	Apr 20	Apr 13	Apr 6	Year ago
S & P Ind. Div. yield	2.55	2.51	2.48	2.57
S & P Ind. P/E ratio	23.24	23.67	23.87	29.48

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	452.00	452.10	-0.05	453.10	451.90	60,097	190,313
Sep	454.10	454.40	+0.15	454.60	454.10	393	9,133
Dec	-	457.00	-	457.00	456.65	71	5,644

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Telefonos	7,624,300	57	-½
RJR Nabisco	5,588,300	6¾	---

■ TRADING ACTIVITY

● Volume (million)

	Apr 25	Apr 22	Apr 21
New York SE	282.241	290.843	378.602
Amex	11.625	18.264	11.278

■ CAC-40 STOCK INDEX FUTURES (MATIF)

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4 pm close April 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

TECHNOLOGY THAT WORKS FOR LIFE

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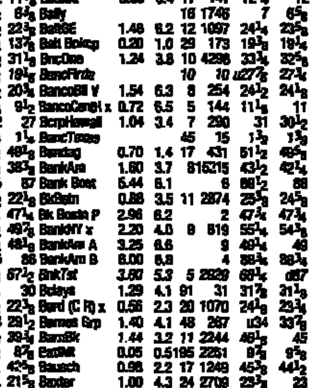

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Inter Key Mouse

SAMSUNG
ELECTRONICS

مكتبة الاهل

هكذا من الاصل

4 pm close April 26

NYSE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
18½	13⅝	SDyk	0.36	2.4	6	1637	15¼	14⅞	15	+⅛
27	19¼	Safeway			24	623	25⅛	24⅝	24⅝	-½
6⅞	4⅞	SafewayW98				35	5⅞	5⅞	5⅞	
57⅞	50¼	StJoePaper	0.20	0.4	298	75	56⅞	56¼	56⅜	+¼
30¼	28	StJosLP	1.80	6.2	14	62	29⅝	29¼	29¼	-⅛
90	76⅜	StPaul	3.00	3.7	8	676	82¼	80½	80⅝	-1⅜
9⅛	6¾	Salant Crp			10	9	8⅞	8¼	8¼	
49⅞	38¼	Sallie Mae	1.40	3.6	8	3259	39	38½	38¾	+⅜
13⅞	11⅞	Salomon Br	0.34	2.7		302	12½	12⅜	12½	+⅛
52¼	44¾	Salomon	0.64	1.3	6	4618	49⅞	49¼	49½	+⅝
25	21½	SDgGE	1.52	6.9	11	535	22½	21⅞	22	-¼
10	7½	SantaFeERs	0.16	1.8	9	990	9⅛	8¾	9	+⅛
40	34⅝	SantaFePac x	2.80	7.5	17	22	37¼	37	37⅛	-⅛
26¼	21	SantaFeP	0.10	0.5	12	2551	22½	22	22⅛	-¼
26	20⅛	SaraLee	0.64	3.1	13	5418	21⅛	20½	20½	-½
50⅛	44½	Scana Corp	2.82	6.1	12	211	46½	46⅛	46⅛	-⅛
20½	15⅜	Scecorp	1.42	9.0	11	8863	15⅞	15⅝	15¾	-⅛
40½	34¾	SchererRP			28	41	37	36¾	36¾	-¼
69⅝	54½	SchrPl	1.80	3.0	14	7230	61⅝	60⅛	60⅞	-⅜
61½	50¾	Schlmb	1.20	2.2	23	3870	56	55	55¾	+⅛
33	25¼	Schwab(C) x	0.28	1.0	13	669	28⅞	28⅜	28½	-⅜
10¾	6⅛	Schwitzer			26	28	9⅛	9⅛	9⅛	-⅛
36⅞	24⅞	SciAtl	0.12	0.4	58	1803	29¼	27⅜	29¼	+1¾
16⅞	13¼	Scotsman	0.10	0.7	12	63	13½	13¼	13⅜	
46¾	37¼	ScottP	0.80	2.0	10	2088	41⅛	40¼	40¾	
28⅝	18⅝	ScuddrNAsF	0.21	0.9		49	22⅞	22¾	22⅞	
12⅝	9¾	ScuddrNSuF	0.16	1.5		102	10¾	10½	10¾	+⅛
18¼	16½	SeaCnB	0.70	4.4	7	21	16½	d16	16	-⅞
18½	15⅛	SeaC1.4625	1.46	9.1		9	16	16	16	
31	26¼	Seagrm	0.56	1.9	38	4203	29⅞	29¾	29¾	+⅛
29½	23	Seagull En			38	1095	u29½	28⅞	29½	+½
31⅝	26⅝	Sealed Air			21	17	29	28¾	29	+¼
55⅛	42⅛	SearsR	1.60	3.4	7	3413	46¾	46¼	46¾	
13¾	11¼	Seligm Sel x	0.84	7.1		38	11⅞	11¾	11⅞	+⅛
39¼	30	Sensormat	0.22	0.7	34	2448	33¾	31⅞	33¾	+2¼
39¼	27¼	SequaA	0.60	2.0	4	55	29½	29⅜	29½	
[illegible]										

- U -

- T -

- W -

- X - Y - Z -

NASDAQ NATIONAL MARKET

4 pm close April 26

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX COMPOSITE PRICES

4 pm close April 26

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							
Calprop		1	2	1⁵⁄₁₆	1⁵⁄₁₆	1⁵⁄₁₆	
Cambrex	0.20	12	45	20⅞	20¾	20⅞	+⅛
Can Marc	0.28	21	2	11⅞	11⅞	11⅞	-⅛
Chmbrs A	0.01	7	338	3⅞	3⅞	3⅞	+⅛
Chambrss		8	2	3⅞	3⅞	3⅞	+⅛
Champion		47	423	d33⅛	32	32½	+½
Chiles		218	2406	4⅞	4¼	4⅜	-½
CircPh	0.04	30	594	12	11½	11¾	+¼
Cntrl FdA	0.01		165	5⅜	5⅛	5¼	
Cominco	0.30	20	34	15½	15⅜	15½	+⅛
Garan	0.80	8	25	27⅛	26⅞	26⅞	-¼
Giant FdA	0.70	14	802	22⅛	22	22⅛	-⅛
Glatfltr	0.70	33	208	15⅝	d15¼	15½	+⅛
Goldfield		3	24	⅞	d½	½	
Greenman		31	65	6⅛	6	6	-⅛
Gulf Cda	0.34	71	370	3⁵⁄₁₆	3¼	3¼	
HanDir		37	587	6⅞	6	6⅞	+¼
Hasbro	0.28	15	1777	34⅛	33¾	34⅛	-⅛
Health Ch		5	48	3½	3⅜	3⁷⁄₁₆	-¹⁄₁₆
Nat Pnt		6	278	3⁵⁄₁₆	3⅛	3³⁄₁₆	+⅛
NY TmA	0.56	357	1985	25¼	d25	25	-⅝
NthCanOil	0.20	10	14	9¼	9	9⅛	+⅛
NumacE		117	6	5⅞	5⅞	5⅞	+⅛
NVR		12	10	8¾	8¾	8¾	
Odetics A		34	135	u9¾	d9¼	9¾	
Oisten	0.24	106	575	32	31¾	31⅞	
Pegasus G	0.40	88	1631	16¼	15⅞	16⅛	
Perini	0.80	50	10	12	12	12	+⅛
UnivPtnts		17	14	6⅛	6	6	-¼
US Cellul		91	109	28½	26¼	28½	
ViacomA		19	189	25⅞	25⅝	25¾	
ViacomB			1261	23⅝	23⅛	23⅛	-⅛
Weatherfd		34	884	10⅛	9⅞	10⅛	
Wesbmer	0.80	24	313	28¾	28⅝	28½	
WRET	1.12	18	95	13	12¾	12⅞	+⅛
Worthen	0.80	10	195	21⅞	21⅛	21⅞	-⅛
Xytronix		4	100	4	3¹³⁄₁₆	4	+¼

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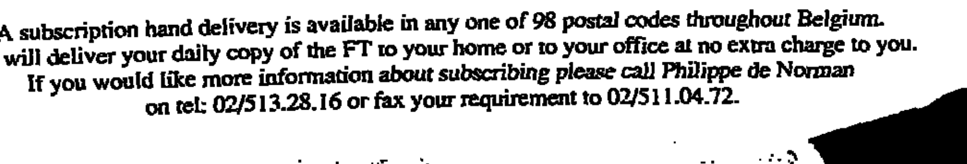


AMERICA

US stocks edge lower as profits are taken

Wall Street

US blue-chip stocks were mostly lower yesterday morning as investors booked profits after the previous session's powerful rally, writes Frank McGurty in New York.

By 1 pm, the Dow Jones Industrial Average was 3.57 easier at 3,702.21, while the more broadly based Standard & Poor's 500 was down 0.37 at 452.34. Secondary markets improved, with the American SE composite up 1.02 at 436.99, and the Nasdaq composite 2.56 better at 733.35.

Stocks opened on a firm note, with the bond market continuing to provide a favourable backdrop for a sustained improvement in share prices. In part, the optimism which inspired Monday's surprising 57-point surge by the Dow industrials carried over into the opening. But equity investors also drew quiet comfort from the resilience which longer-dated government bonds were showing in the face of the day's problematic economic data.

The potential obstacle was the Conference Board's April index of consumer confidence, which came in at 91.7, from a reading of 86.1 in March. The sharp increase surprised analysts, and suggested the possibility of a spurt in consumer spending.

Bonds were thrown out of kilter by the news, but soon regained their stride, showing modest gains by midday. At the same time, stocks slipped into negative territory and stayed there, as mild profit-taking across the board prevented a rebound to opening levels. Many of the blue chips were showing modest losses as the afternoon began, though analysts were generally pleased that the downdraft was not more severe.

Corporate earnings were again a driving force in the markets, and most of the early gains were struck on better-than-expected first-quarter performances.

Disney jumped $1¼ to $43⅞ after the entertainment group revealed record revenues and net income up 16 per cent in the first quarter.

Elsewhere, Capital Cities/ABC gained $15¼ to $712¾ as it announced a big jump in net income struck on strong operating results from the ABC broadcast network.

In the energy sector, Chevron shed $1 to $91⅝ after revealing a 23 per cent slide in net income as a result of low crude oil prices. Texaco, which posted a sharp drop in earning the previous session, fell $1 to $64⅝.

The session's biggest casualty was UNUM, an insurance holding company which disappointed the market with a slim earning gain before adjustments. The stock plummeted $5⅛, or 9.6 per cent, to $49⅝.

Tobacco stocks picked up value on the news of an agreement by BAT Industries to acquire American Brands for $1bn in cash. American, which makes Pall Mall and Lucky Strike cigarettes, climbed $2⅛ to $33⅝ on the announcement. Philip Morris, the world's leading marketer of tobacco products, jumped $1⅛ to $53⅞. RJR Nabisco was $⅛ better at $6⅝ on heavy volume of 3.7m shares.

On the Amex, BAT ADRs improved $⅞ to $13⅝.

Canada

Toronto continued to strengthen at midday, helped by first quarter earnings reports and an improvement in market sentiment. The TSE 300 composite index rose 15.64 to 4,252.37 in turnover of C$468m.

The industrial products sector put in the strongest performance, rising 1.1 per cent as Northern Telecom climbed C$2⅞ to C$40⅞ in heavy dealings in response to better than expected first quarter earnings.

Active stocks included Wascana Energy, up C$⅜ at C$10⅝ with 2.7m shares changing hands, and John Labatt, steady at C$21⅛ with 1.54m shares traded after First Marathon Securities crossed a 1.5m share block.

EUROPE

Bourses respond to good tidings

Wall Street's overnight gains, good chemical results and ecstatic buying in Milan took bourses higher yesterday, *writes Our Markets Staff.*

FRANKFURT rose 1.9 per cent, the Dax index closing 40.98 higher at 2,243.20 after a better than expected quarterly from Hoechst and reduced growth in M3 money supply growth.

The big three chemical stocks led the bourse higher, BASF – seen as the most cyclical of the trio – outperforming its rivals with a rise of DM14.50, or 4.6 per cent to DM328.50. Hoechst's statement that it had seen a noticeable economic upturn over the past few weeks added to the general enthusiasm, and there was a suggestion that German institutions might finally be buying the sector for its dividend payments, currently due.

Turnover rose from DM7.7bn to DM10.8bn. Professionals also noted stronger bund and futures trading. Mr Thomas Nolten of B Metzler in Frankfurt said that there was a story that Monday's equity trading had been depressed by the expiry of a 2,200 OTC option on the Dax index and that, yesterday, traders found themselves with short positions to cover.

AMSTERDAM, encouraged by first quarter results from Akzo Nobel recovered most of Monday's fall, and the AEX index finished up 3.46 at 418.42.

The chemical group dominated interest, hitting a new 12 month high of Fl 229 before losing a little on profit-taking to end up Fl 6.40 or 3 per cent at Fl 226.90. Hoare Govett *sounded positive on the stock,* noting that in spite of recent strength the group remained the cheapest of Europe's chemical stocks in p/e terms and had, prior to yesterday's rise, been trading at a 10 per cent discount to the equity market.

Heineken added Fl 3.30 to Fl 241, as the brewer said that it was calling on European subsidiaries to provide supplies for the domestic market owing to a six day old strike at its two main factories.

PARIS failed to recoup all of Monday's losses, the CAC-40 index ended at 2,130.91, up 14.62, after a session high of 2,138.57.

Equities remained trapped in a narrow range, with many institutions having gone underweight in recent weeks and domestic investors distracted by the UAP privatisation. The insurer lost FFr1.10 to FFr162.90 yesterday.

Accor rose FFr6 at FFr718 although Meridien hotels, for which it is bidding, said that it preferred the offer from Forte, of the UK. Air France, which holds 57 per cent of Meridien, is due to meet tomorrow to select the successful bidder.

MILAN was swept to an eight year high by a fresh wave of domestic liquidity, the Comit index rising 24.90, or 3.2 per cent to 801.98.

Mr John Stewart at InterEuropa Sim in Milan, said that the absence of violent protest during Monday's Liberation Day celebrations had opened the way for Mr Silvio Berlusconi to be asked to form a government. This, in turn, would open the way for lower interest rates, while newly released first quarter industrial output figures had provided confirmation that economic recovery was under way.

Industrial blue chips led the advance. Pirelli rose L212 or 7 per cent to L3,227, Olivetti added L158 or 5.4 per cent to L3,066 and Montedison put on L61 or 5.3 per cent to L1,613 in volume of 77.6m shares.

Fiat rose L379 or 5.8 per cent to L6,992. Paribas Capital Markets, which has downgraded the stock from a buy to a hold, said recent positive developments, including cost savings and new production units, renewal of the vehicle range and recovery of the European car and truck markets, had been discounted by the market after the shares' sharp rise in recent months.

MADRID rose but Santander paid for its Banesto win, falling Pta440, or 7.2 per cent to Pta5,670 as the general index closed 3.07 higher at 322.06.

Turnover shot up again to Pta40.3bn. It was estimated that half of this was in the banking sector where Banesto rose Pta113, or 15 per cent to Pta868 and the failed bidders, Argentaria and BBV, by Pta200 to Pta5,900, and Pta95 to Pta3,395 respectively. Elsewhere, the US-influenced Telefónica rose Pta45 to Pta1,815.

ZURICH ended below its best as Roche and Nestlé turned back after an early show of strength. The SMI index finished 12.7 higher at 2,776.2, after a peak of 2,798.4 in response to firmer bond futures and an easing of worries about the outlook for interest rates.

Roche was unchanged at SFr6,800 after a high of SFr6,890 and Nestlé gave up SFr1 to SFr1,210 after testing SFr1,225. Insurers, underperformers during recent months, continued to recover. Zurich bearers added SFr21 to SFr1,252 and Swiss Re put on SFr18 to SFr680.

WARSAW went limit-down in most top stocks, and trading in nearly all of them was suspended as the WIG index dropped 1,225.9, or 9.9 per cent to 12,221.7 after four sessions on the upgrade.

Written and edited by William Cochrane, John Pitt and Michael Morgan

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Apr 26 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1462.83	1463.52	1464.54	1468.15	1468.01	1467.51	1467.00	1464.12
FT-SE Eurotrack 200	1477.75	1479.10	1479.55	1484.08	1482.98	1483.58	1482.76	1480.61

	Apr 25	Apr 22	Apr 21	Apr 20	Apr 19
FT-SE Eurotrack 100	1449.13	1458.24	1436.73	1444.78	1448.50
FT-SE Eurotrack 200	1467.22	1476.62	1458.85	1465.17	1470.59

Base 1000 (26/10/90); High/day: 100 - 1468.85; 200 - 1485.59 Low/day: 100 - 1462.49 200 - 1476.93

Reports elevate chemicals

Heralded by excellent first quarter results from DuPont in the US on Monday, progress reports from two of Europe's biggest chemical groups lifted shares in the sector yesterday.

Hoechst, the first of the 'Big Three' German chemical groups to report quarterly figures, came in measurably ahead of expectations with a 16 per cent rise in pre-tax profits; its shares rose DM11.30, or 3.4 per cent to DM348.50.

Bayer and BASF also rose; their quarterlies are due today, and tomorrow.

Analysts reckoned that the industry's profits growth would accelerate as increased volume allowed it to raise product prices. "Hoechst's statement seemed to suggest that the thin years in the German chemical industry are over," said a trader.

In Amsterdam, Akzo Nobel, rated as the world's ninth largest chemicals group following the merger between the Dutch and Swedish companies earlier this year, pleased analysts with first quarter results at the top end of expectations.

Mr Charles Brown, of Goldman Sachs in London, said that taken overall the results were very encouraging, particularly as the merger was dilutive of 1993 and 1994 earnings. "One has a sense that while business is currently not exactly buoyant," he said, "it is certainly not getting any worse and is running ahead slowly in Europe. Over the next year one will see benefits from the merger filtering down into the bottom line."

São Paolo retreats from early advance

Brazil

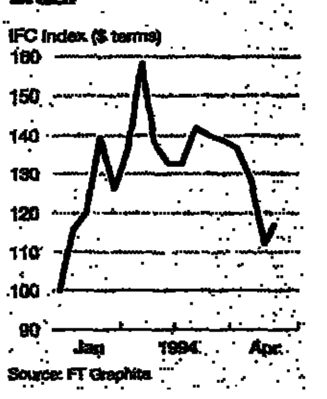
Equities in São Paulo had retreated by midsession from opening highs in quiet trading. The Bovespa index was up 1.3 per cent at 15,716. Turnover was firm at Cr$173bn.

Brokers said that they were disappointed by news that congress would not vote until today on a provisional measure detailing the implementation of the URV price index.

Approval of this measure is necessary for the government to be able to introduce a new currency in the final phase of its anti-inflation programme.

Among the actives Telebras was up 2.1 per cent at Cr$43.5.

Brazil



Source: FT Graphite

Mexico

Equities rose steeply in early trading on announcements bolstering the Mexican peso and indicating that the government is not envisaging devaluation.

By mid-morning the key IPC index was up 65.96 points at 2,257.04 – a gain of 3.01 per cent. At the end of 1993, the IPC stood at 2,602.63.

Volume totalled a moderate 184.09m new pesos, on 15.3 m shares traded.

The reaffirmation of Mexico's commitment to the anti-inflation and peso stabilising agreement by Mr Pedro Aspe, Minister of Finance, strengthened the belief that a devaluation of the currency is not under consideration.

In addition the unveiling of a $6.8bn combined currency swap facility for the US, Canada and Mexico, ostensibly for use by any of the three nations but clearly to underpin the new peso, also gave the market a positive boost.

The recovery followed the fall on Monday precipitated by the kidnapping of Mr Angel Losada Moreno, vice-chairman of Gigante, the nation's second-largest supermarket chain, in Mexico City.

S.Africa attracts heavy buying

The Johannesburg industrial index recorded an all-time high yesterday as voting began in the country's first all-race elections. The index ended up 226 or nearly 4 per cent at 6,257, while the overall index added 172 to 5,240 and the gold index 60 to 1,906.

The market will be closed today. Voting continues today and tomorrow, with initial results expected on Friday.

Other factors aiding the strong run in shares were a higher Wall Street and gold's firmer showing. Among the session's best gains, Anglos improved R16.50 to R232, Kloof added R2.75 to R46.25 and SAB gained R2 to R94.

De Beers rose R3.75 to R112. Sappi added R3 to R45 in spite of passing its full year dividend and reporting sharply lower earnings. Dealers said that the results had largely been discounted.

ASIA PACIFIC

Nikkei eases on renewed political problems

Tokyo

Renewed political uncertainty weighed on share prices, and the Nikkei index fell on arbitrage-linked selling, *writes Emiko Terazono in Tokyo.*

The 225 average fell 80.21 to 19,628.93 while the Topix index of all first section stocks lost 6.51 to 1,597.92. The Nikkei opened at a high of 19,718.04 before falling to a low of 19,512.40 later in the morning.

The overnight announcement that the Social Democratic party was pulling out of the coalition, leaving Mr Tsutomu Hata, the newly selected prime minister, to lead a minority government discouraged investors.

Volume was flat at 240m shares as most market participants remained sidelined. The Nikkei 300 fell 1.19 to 292.13. Advances led declines by 707 to 258 with 217 issues remaining unchanged.

In London, the ISE/Nikkei 50 index rose 3.09 to 1,307.36.

Some analysts said that they were becoming cautious over short-term prospects because of the increase in long arbitrage positions, higher bond yields and the strength of the yen against the dollar. Mr Jason James, strategist at James Capel, said the Nikkei would hover around the low end of the 19,000 to 21,000 range, possibly testing the downside.

The absence of foreign buying, which supported share prices during the first quarter, also worried investors. However, some traders believed that overseas investors would remain inactive while long bond yields failed to ease.

Nippon Telegraph and Telephone fell Y2,000 to Y886,000 while East Japan Railway declined Y3,000 to Y480,000.

Multi-media theme stocks lost ground, Hitachi falling Y10 to Y956 and NEC declining Y20 to Y1,130. Speculative shares declined on selling by investors looking for profits: Sumitomo Coal Mining fell Y10 to Y955.

Furukawa Electric rose Y15 to Y690 on its patent approval to manufacture shape memory alloys of nickel and titanium.

In Osaka, the OSE average fell 116.96 to 21,912.54 in volume of 17.2m shares.

Roundup

New York's overnight improvement brought gains to several markets in the region.

HONG KONG moved on Wall Street and on fading concern about government attempts to cool down the residential property market. The Hang Seng index rose 192.53, or 2.1 per cent to 9,328.64 as turnover *climbed from HK$2.95bn to HK$4.06bn.*

The property sub-index closed 443.04, or 2.8 per cent higher at 16,109.58. Cheung Kong *was up HK$1 to* HK$37.75, Henderson Land added HK$1.25 to HK$40 and SHK Properties HK$2.00 to HK$49. Brokers said that investors *no longer feared drastic* measures in any government bid to halt the rise in property prices.

AUSTRALIA added a rise in the domestic bond market and buying, mostly from local institutions, took the All Ordinaries index up 26.9 to 2,069.4. Turnover, however, was light at A$370.84m.

Industrials were generally strong, and oil stocks performed well after oil prices hit five month highs on short-term supply worries. Ampolex and Santos both rose 18 cents, to A$4.38 and A$4.08, and Woodside put on 12 at A$4.30.

NEW ZEALAND gained 1.8 per cent although here, too, professionals pointed to light volume as the NZSE-40 capital index closed up 36.91 at 2,130.18.

Turnover was NZ$33.5m.

Brokers also said that and a lacklustre debt market inhibited the buyers, and pointed out that recent similar rises on Wall Street had invariably been quickly snuffed out the next day by large falls.

MANILA offered higher than expected first quarter profits from Meralco, the electric utility, coupled with PLDT's rise in New York as the composite index rose 29.19 to 2,867.59.

Meralco A rose 12.50 pesos to 447.50 pesos after the company announced a 129 per cent increase in first quarter net *profits, and PLDT closed* 15 pesos higher at 1,780 pesos.

TAIWAN saw its highest volume since February 4 as heavy profit-taking took the weighted index down 67.39 to 5,851.16 after a 57-point rise at the opening. Turnover rose from T$73.22bn to T$89.91bn.

Heavy profit-taking in plastics triggered across-the-board selling. Petrochemical stocks were especially weak, with China Petrochemical down 7 per cent at T$26.60.

BANGKOK lost 1.1 per cent, the SET index closing 14.08 lower at 1,263.79 on rising interest rates and political uncertainty.

KARACHI opened its new account with the KSE 100 index down 17.42 at 2,405.62.

BOMBAY ended lower in spite of a late recovery on buying by Indian mutual funds. The BSE 30-share index fell 32.75 to 3,780.52.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	MONDAY APRIL 25 1994 — US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY APRIL 22 1994 — US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX — 52 week High	52 week Low	Year ago (approx)
Australia (69)	166.25	-0.2	165.25	108.48	145.16	154.19	0.0	3.54	166.60	166.30	109.15	146.78	154.19	189.15	130.19	141.19
Austria (17)	173.77	-0.7	172.73	113.38	151.72	151.76	-1.4	1.02	174.98	174.67	114.65	154.17	153.87	195.41	139.63	144.19
Belgium (42)	168.36	0.7	167.35	109.86	147.00	143.58	-0.1	3.80	167.27	166.97	109.58	147.37	143.84	171.69	141.92	152.06
Canada (106)	129.03	1.7	128.25	84.19	112.65	129.09	1.9	2.60	126.91	126.68	83.15	111.81	128.69	145.31	121.46	124.73
Denmark (32)	252.67	-0.1	251.15	164.87	220.61	226.72	-0.8	1.06	252.79	252.33	165.62	222.71	228.58	275.79	207.58	215.29
Finland (22)	146.47	0.4	145.59	95.57	127.89	168.07	-0.1	0.89	145.92	145.66	95.61	128.56	168.20	156.72	85.54	90.40
France (98)	170.40	0.1	169.37	111.19	148.78	154.19	-0.6	2.88	170.30	169.99	111.58	150.04	155.14	185.37	149.60	160.57
Germany (58)	140.66	0.4	139.82	91.78	122.81	122.81	-0.5	1.67	140.15	139.90	91.82	123.47	123.47	142.38	107.59	115.96
Hong Kong (56)	373.74	-0.1	371.50	243.87	326.32	370.75	-0.1	2.87	374.20	373.53	245.17	329.69	371.25	506.56	270.35	270.35
Ireland (14)	189.58	1.1	188.45	123.70	165.53	183.97	0.6	3.27	187.44	187.10	122.81	165.14	182.91	209.33	155.93	164.27
Italy (80)	92.01	0.8	91.46	60.04	80.34	110.55	0.0	1.57	91.29	91.13	59.81	80.43	110.55	93.43	57.88	67.48
Japan (469)	155.26	-0.3	154.35	101.32	135.58	101.32	-0.7	0.80	155.77	155.50	102.06	137.24	102.06	165.91	124.54	138.37
Malaysia (98)	497.83	1.9	494.86	324.84	434.67	515.90	2.0	1.31	488.29	487.42	319.93	430.21	505.92	621.63	311.38	311.38
Mexico (18)	1909.38	6.4	1897.90	1245.87	1667.07	7013.36	6.1	0.72	1795.10	1791.87	1176.12	1581.53	6608.30	2647.06	1431.17	1624.12
Netherland (26)	202.26	-0.1	201.04	131.97	176.60	174.33	-0.9	3.22	202.37	202.01	132.59	178.30	175.90	207.43	163.30	171.55
New Zealand (14)	65.63	0.1	65.23	42.82	57.30	60.79	0.0	3.91	65.58	65.46	42.97	57.78	60.79	77.59	46.43	48.36
Norway (23)	194.74	0.9	193.57	127.07	170.03	192.89	0.2	1.72	192.90	192.56	126.39	169.95	192.49	206.42	150.61	157.26
Singapore (44)	348.12	2.5	346.03	227.15	303.95	249.76	2.3	1.57	339.61	339.00	222.51	299.21	244.11	378.92	236.54	236.54
South Africa (59)	242.36	-0.7	240.90	158.14	211.60	259.30	0.2	2.37	243.95	243.51	159.83	214.93	258.87	280.26	174.55	174.55
Spain (42)	140.47	0.9	139.62	91.65	122.64	145.72	0.1	4.09	139.24	138.99	91.23	122.67	145.49	155.79	116.33	132.46
Sweden (36)	213.32	0.3	212.04	139.19	186.25	248.19	-0.1	1.58	212.77	212.39	139.41	187.46	248.53	230.02	163.85	173.75
Switzerland (48)	158.33	-0.3	157.38	103.31	138.24	140.53	-0.7	1.69	158.79	158.50	104.04	139.90	141.54	176.56	119.83	121.72
United Kingdom (205)	190.47	-0.4	189.33	124.29	166.31	189.33	-0.6	3.91	191.28	190.93	125.32	168.53	190.93	214.96	170.32	181.46
USA (519)	184.43	1.1	183.32	120.34	161.03	184.43	1.1	2.89	182.41	182.08	119.51	160.70	182.41	196.04	176.91	178.42
EUROPE (723)	167.81	0.0	166.80	109.50	146.51	159.24	-0.6	2.90	167.84	167.53	109.96	147.87	160.22	176.58	141.58	148.14
Nordic (113)	205.45	0.3	204.22	134.06	179.38	208.33	-0.3	1.37	204.93	204.56	134.27	180.55	208.87	220.60	155.82	163.31
Pacific Basin (750)	163.82	-0.2	162.84	106.90	143.04	111.54	-0.5	1.09	164.13	163.83	107.53	144.60	112.13	168.80	134.79	142.40
Euro-Pacific (1473)	165.33	-0.1	164.34	107.88	144.35	130.23	-0.6	1.85	165.52	165.22	108.45	145.83	130.97	170.78	141.98	144.63
North America (626)	181.00	1.1	179.91	118.10	158.03	180.61	1.1	2.88	178.96	178.64	117.25	157.67	178.57	192.73	173.70	175.09
Europe Ex. UK (518)	151.73	0.2	150.82	99.00	132.48	140.40	-0.5	2.30	151.38	151.11	99.18	133.37	141.08	155.73	122.37	127.63
Pacific Ex. Japan (281)	247.53	0.6	246.05	161.52	216.13	226.08	0.6	2.63	246.17	245.73	161.29	216.89	224.76	296.21	181.46	182.22
World Ex. US (1656)	166.07	0.0	165.07	108.36	145.00	133.26	-0.4	1.86	166.08	165.78	108.81	146.32	133.82	172.51	142.94	145.16
World Ex. UK (1970)	169.29	0.5	168.28	110.46	147.81	146.36	0.2	2.05	168.49	168.19	110.39	148.44	145.03	175.58	152.84	152.84
World Ex. So. Af. (2116)	170.77	0.4	169.74	111.43	149.10	149.45	0.1	2.23	170.09	169.78	111.44	149.85	148.27	178.56	155.00	155.33
World Ex. Japan (1706)	181.63	0.7	180.53	118.51	158.58	177.26	0.5	2.84	180.37	180.05	118.18	158.91	176.40	195.20	165.70	166.08
The World Index (2175)	171.17	0.4	170.14	111.69	149.45	149.31	0.1	2.23	170.51	170.20	111.71	150.22	149.12	178.97	156.17	155.34

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Latest prices were unavailable for this edition. *Markets closed 25/4/94: Australia, Italy and New Zealand.*

Banque Internationale à Luxembourg
1993: sustained progress

BIL

Key figures

(in millions of LUF)	1993	%	1992
Balance sheet total	704,072	+ 19.9	587,061
Customer deposits	529,043	+ 13.4	466,492
Net non-consolidated profit	1,901	+ 58.2	1,202
Net consolidated profit	2,001	+ 22.9	1,628
Net dividend per share	LUF 450	+ 12.5	LUF 400
Number of employees	1,971	- 2.2	2,016

Highlights in 1993
- 13.4% growth in customer deposits
- Net non-consolidated profit up by 58.2%
- Stronger presence in trustee activities, investment advice and portfolio management following the acquisition of Experta *Holding S.A. in Switzerland*

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FINANCIAL TIMES SURVEY

PENSION FUND INVESTMENT

Wednesday April 27 1994

Over the past decade, returns have been extraordinary and, on the face of it, pension fund managers have done an excellent job. But the level of risk in portfolios is now concerning actuaries, says **Barry Riley**

Time to be more sober

At one level, 1993 was a wonderful year for investment returns for the UK's pension funds. The average rate of return was some 28-29 per cent, depending on the degree of exposure to property.

This was the best year since 1989 in *nominal terms, and in* real terms was even better, given the much lower levels of pay and price inflation.

Over the past decade the returns have been extraordinary: an average annual return for the median fund of 15.9 per cent, according to Caps, one of the two performance measurement services.

This has shown a vast margin over the 5 per cent average *inflation* rate, and 7.4 per cent a year over pay inflation, which is more relevant to the large majority of pension schemes which offer benefits linked to pay at or near retirement.

On the face of it, pension fund managers have done an *excellent job but they have* achieved this by pushing the investment strategy of UK schemes towards new extremes of risk. The exposure of funds to equities, according to the other measurement specialist WM, is now 80 per cent, against only about 60 per cent ten years ago

The level of risk in pension *fund portfolios is now beginning* to cause concern among actuaries, who are worried that the increasing maturity of many schemes may require the adoption of a lower-risk strategy.

There is also concern at government level, following last autumn's publication of the report of the Goode Committee on pension *law* reform. The department of social security is currently preparing a White Paper on proposed legislation, including rules on a minimum solvency *standard*.

The government is likely to follow the line of the Goode Report and legislate, perhaps *in 1995, to improve the security* of pension scheme members when companies get into trouble.

A minimum solvency standard might mean that companies would be forced to pump more capital into their schemes at the bottom of a stock market slump.

There are moves to moderate *the impact by calculating solvency* on an age-related basis. *Only schemes with a large proportion* of old members would be seriously affected. In such cases, nevertheless, avoiding such risks could cost companies money, if they come under pressure to invest in safer but lower-returning assets, or alternatively if they feel *obliged to purchase portfolio* insurance against the risk of equity market slumps.

Nevertheless, the high returns of equities have greatly contributed to the currency prosperity of most schemes. One of the leading investment firms, Phillips & Drew Fund Management, has been publishing a statistical review called *Pension Fund Indicators* for 21 years and it has data *going* back 31 years in all.

Over this period UK equity *returns have beaten pay inflation* by 4.8 per cent a year, but *the returns on fixed income* government bonds have failed to match pay *inflation* and have underperformed domestic equities by 5.5 per cent a year. Over the past decade government bonds have performed much better against inflation, but have continued to return about 5.5 per cent a year less than shares.

Somewhat curiously, however, overseas equities have also markedly underperformed UK equities in the past decade. They have returned 4.3 per cent a year less on average, *even though the underlying* economic performance of the UK has been uninspiring. An explanation could be that valuation factors have distorted the returns recently; consequently, an unfavourable rebalancing of the UK market is quite possible in the future.

Certainly UK equity valuations have looked quite demanding recently. The dividend yield on the All-Share *Index of only 3.2 per cent when* the market reached its peak at the beginning of February was close to the lowest ever reached in modern market history.

In fact, for the purposes of scheme valuations, many actuaries will almost entirely disregard the surge in share prices last year. They will value the *assets on the basis of dividends*, which failed to grow last year: modest underlying rises were wiped out by the 6¼ per cent hit which resulted from changes in dividend taxes.

The equity market's gain was a valuation effect related to the sharp fall in government bond yields.

The rise in asset values was effectively cancelled out by the higher present value of scheme liabilities, because long-term interest rates were much lower.

These effects of valuation changes were seen even more dramatically in the US, where long-term Treasury bond yields also tumbled.

General Motors' pension plan, for instance, revealed that each one percentage point fall in the long bond yield added $5bn to its deficit. US *pension schemes began to speculate* in risky assets, even including emerging market bonds, in a search for adequate returns.

A subsequent *jump* in the long bond yield to well over 7 per cent has imposed widespread capital losses, but has restored some balance to the long-term institutions by improving their longer-term funding prospects.

In the UK, too, pension funds could not meet their rate of return requirements in the sterling fixed interest bond market last year.

Although the government sold a record £50bn of gilt-edged, pension funds failed to make any net additions to their fixed interest sterling bond portfolios, *although* they bought a small amount of index-linked gilts.

On both sides of the Atlantic pension funds were effectively priced out of the bond markets because of the massive intervention of speculators such as hedge funds and bank proprietary trading departments. But it looks as though a very different scenario may develop in 1994.

Whatever happens, however, UK pension funds will no longer be substantial net investors of new money. Although the total of funds under management may have neared £450bn at the end of last year, *the net cash flow was only* about 1 per cent of that. *Stripping out capital gains* and investment income, the funds *showed underlying shrinkage* of about 3 per cent.

So far, however, there is little sign among big UK schemes of another feared development, a switch to a money purchase (or defined contribution) structure rather than the conventional final salary (or defined benefit) scheme design. The latest NAPF survey showed that only 7 per cent of schemes (covering just 3 per cent of the aggregate membership) are run on a money purchase basis.

However, another recent survey, covering small to medium-sized companies, by consultants Sedgwick Noble Lowndes, showed a 19 per cent proportion of money purchase schemes.

There are concerns that as scheme valuation surpluses disappear and the high costs of final salary schemes become more evident, the money purchase approach will become much more common in the UK. Because money purchase schemes transfer investment risks to the scheme member, *such a trend would require* investment managers to take *much more notice of the* short-term risks facing scheme members, especially those approaching retirement.

This shift is already taking place in the US, where corporate sector defined benefit plans showed a negative cash flow of $36bn last year, according to consultants Greenwich Associates. Corporate defined *contribution plans, in contrast,* enjoyed positive cash flow of $11bn.

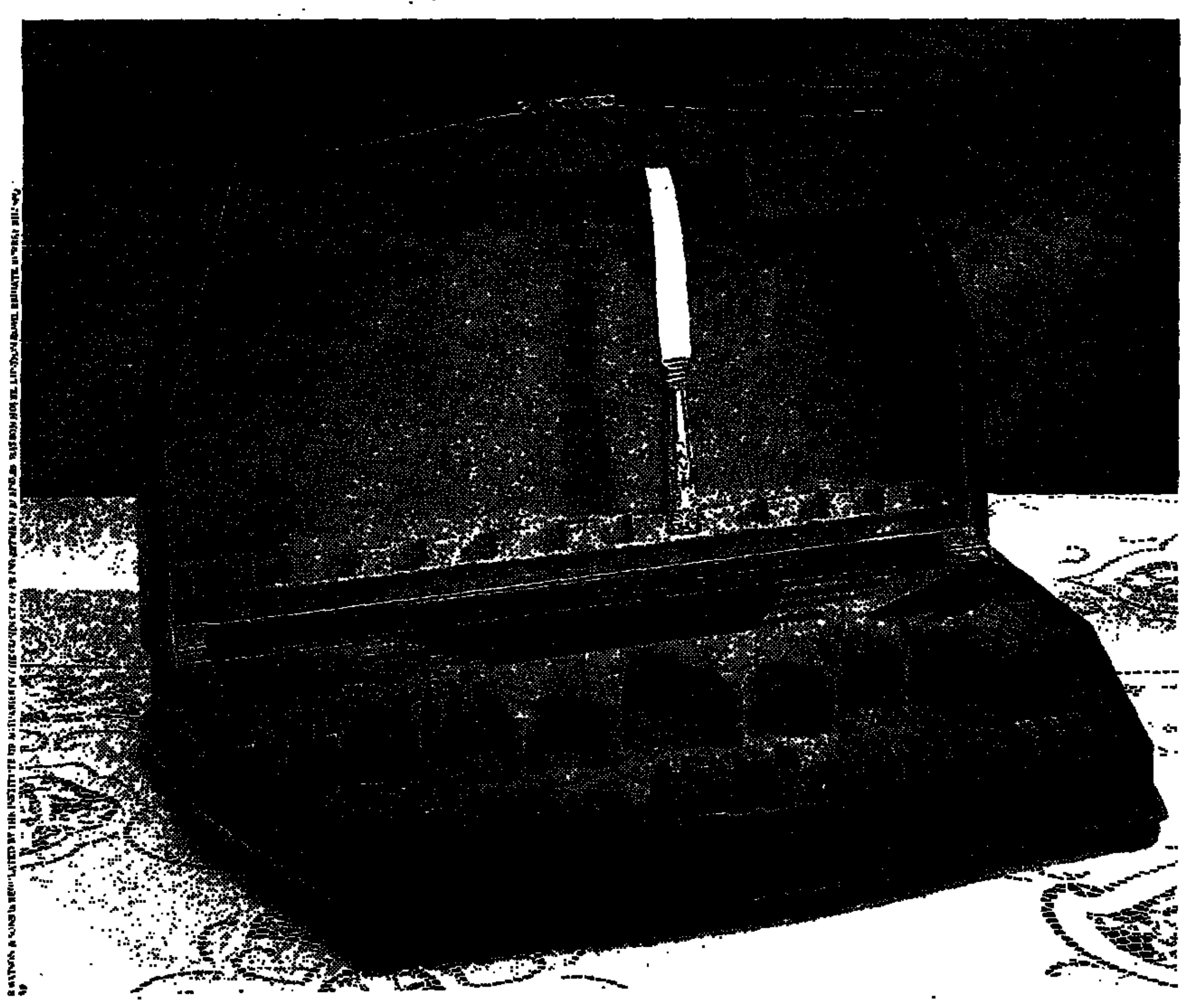
Defined contribution plan assets now represent 37 per cent of all US corporate pension assets, and the proportion could be 60 per cent in ten years' time on current trends.

Brilliant returns by UK pension fund managers over the past three years, when the typical fund has produced annual returns of 22 per cent on average, while annualised pay inflation has been only 5 per cent, have distracted attention from some of these problems.

But 1994 is striking a more sober note. The typical return will have been a negative 4 or 5 per cent in the first quarter. From now on fund managers may need to pay at least as much regard to risk as to reward.

IN THIS SURVEY

Editorial production: Roy Terry



ARE YOU PREPARED TO SELL THE FAMILY SILVER?

Watsons research suggests that 20% of larger UK pension funds must now sell assets to meet benefit payments. Many more are within sight of the same fate, as their pension payments now eat into investment income.

Are all these pension funds well prepared to deal with this new state of affairs?

While UK pension funds have a long history of thorough self-examination of investment strategy through *performance* measurement, this scrutiny has been very narrow. Tactical achievements have been examined with increasing *ferocity*. *Strategic* achievements have been largely ignored. As a result pension funds may feel good about winning performance *battles when they* could be losing the performance war.

Most pension funds have set their managers a target of out-performing *the industry median* return, an approach best characterised as scoring tactical gains over other pension funds. How realistic is such a goal when half the participants will fail? How relevant is it when it forces managers to derive their asset allocation from the industry average position without regard to a fund's particular needs? A policy vacuum has been created.

Better answers to this problem are within the scope of most funds:

- exploration of the issues through asset liability modelling and assessment of risk through the trustees' and the employer's perspectives;
- considerations of strategy in which long-term financial goals related to liabilities are placed ahead of tactical gains related to the average pension fund;
- agreement on a strategy which strikes a balance between the competing needs of high security and low cost (an objective brought into sharp relief by the Goode Committee Report).

For growing pension funds with no maturity problem, equities remain the ideal asset class. In such cases, pursuit of a target linked to the industry average return may well be appropriate.

For mature pension funds however, other targets may prove more appropriate. Mature funds have less time to correct a poor investment record before liabilities must be met. *Contributions must therefore take* the strain and make up the difference over this shorter period.

The result? Minor equity market falls can easily turn into major solvency problems or contribution rate rises. In such situations, the "family silver" may well be sold at distressed prices. For mature funds like this, asset allocation should involve a higher content of assets matched to liabilities. Bonds, particularly of the index-linked variety, should figure more prominently.

The issue does not end with agreeing a proper strategy. Implementation of a new policy requires great care and attention to timing and costs. After implementation there will be periodic fine tuning of the strategy.

Any changes need to reflect disciplined interpretations of the performance of the strategy, not allowing discomfort with short-term results to obscure the long-term merits of a strategy. This more focused approach to setting strategy involves learning to recognise the key financial factors that determine a pension fund's risks and rewards. It also involves "unlearning" the simplified habits that performance measurement contests have bred in us.

WATSONS
INVESTMENT CONSULTANCY

For all funds, better understanding of asset allocation issues *should* be a prime ambition. For those having to "sell the family silver", some investment in forward planning is essential.

WRITTEN BY PATRICK LEE, WATSONS (TELEPHONE: 0737-241144). PHOTOGRAPHY BY CHRIS OVERTON.

Barry Riley analyses the performance of the managers and finds that the top four have opened up a gap

New business shifts towards a few winners

Within a virtually static market place, the pension fund management business continues to show marked changes. The big four active managers have opened up something of a gap. Gartmore's £16bn under management at the end of 1993 being more than £4bn ahead of the Prudential's total.

BZWIM's inclusion in the top group is for rather different reasons: it is the leader in index-tracking, which represents £17bn of its UK pension fund business, and it also looks after £7bn of the Barclays group's in-house pension funds.

The biggest winners of new business in 1993, according to the newsletter *Global Money Management*, were Gartmore, Schroder and Phillips & Drew Fund Management. Good progress was also made by Baring, Morgan Grenfell, Baillie Gifford and Legal & General (the latter in index funds, where it is number two to BZWIM).

Net losers included Cazenove, Fleming and BZWIM. Mighty Mercury Asset Management, too, suffered a modest net loss of business last year, although it remains the clear industry leader. With well over 400 clients, MAM is bound to lose several each year, for instance through mergers and restructurings, even if it performs well; and it is having to run hard to stand still.

As always, the performance league table explains a lot. Last year there was a very wide dispersion of total returns within the top 15 managers, from 25 per cent to 37 per cent. Over five years, the differences are much less, but there is still a 3 or 4 percentage-point gap between the top few and the bottom group. That implies a 20 per cent difference in the size of a client's fund after five years.

The performance figures have been supplied to the Financial Times and are certified to comply with the industry code. However, the gradual shift towards specific asset allocation benchmarks, rather than full manager discretion, may mean that the figures do not always reflect the actual experience of clients.

Moreover some managers decline to publish figures. Mercury Asset Management is believed, for instance, to have a particularly wide dispersion of performance, and it refuses to disclose a house median (although it is thought to have been close to the industry average in 1993).

Newton, a fast-growing independent firm, easily retained its leadership of the five-year performance table in 1993, but has been closed for new business for a while. Stewart Newton is anxious to keep the rate of growth under control, and will only accept a small number of new clients in the remainder of this year.

The tendency for business to cascade in an unmanageable way towards the performance leaders is something which advisers and consultants seek to resist, but with little success. Baillie Gifford, the lone current success story from Scotland, raised its funds under management by 60 per cent last year, although it was also said to be turning away business at one stage.

The much bigger Gartmore did almost as well in the wake of its brilliant 1992 performance. Rivals have been watching closely, however, to see whether Gartmore could cope with such a heady pace of expansion at the very time that the company's November stock market flotation might have been expected to take the management's eye off the ball.

Performance did, in fact, wobble in 1993, but a good final quarter, when high exposure to the Far Eastern equity markets boosted the results, enabled Gartmore to close the year respectably, just inside the second quartile of returns.

The use of aggressive strategic switches is a feature of Gartmore's style, and it is significant that it is asking its clients to approve the use of derivatives so that it can continue to apply this approach to funds which have expanded 2½-fold in two years.

Elsewhere among the leaders, PDFM also had an indifferent year for performance, going heavily bearish and raising liquidity during the final quarter's bull run in global equities. However, its value-oriented stock selection has been very good, and it will be reaping the benefit of its recent caution in 1994's much more difficult markets.

In contrast Schroder, which had a strong suit in its emerging markets expertise, enjoyed a brilliant year, and was the only one of the Big Four managers to shine. Its performance was almost *too* good, because it promotes a steady, just-above-median style, and racy figures might not always go down well with its risk-averse clientele. However, with funds under management up by almost 50 per cent last year, Schroder is in a purple patch.

But while some of the merchant banks and independent managers are doing well, life assurance companies are going through a bad period. Prudential Portfolio Managers has suffered from poor performance and Scottish Widows is also slipping back. Legal & General at least has a niche in index funds. The only upwardly-mobile life office in segregated pensions at the moment is Clerical Medical, which jumped past the £2bn milestone last year. "The only life companies who are going to succeed are those who think like merchant banks," says Mark Henderson, senior investment manager at Clerical Medical, which is comfortably in the top half of the performance table.

Positions in the lower part of the league are making business difficult, however, for two waning ex-stars of the pension management business, Henderson and Fleming. Of the two, Fleming had a better time in 1993, however, and one more good year might take its five-year performance up to the median level.

Last year, Fleming beat the median through well-judged asset allocation, says its head of balanced funds, Chris Tracey. There were profitable moves into and then back out of Japan. But Fleming was underweight in UK second-line stocks, which was costly.

As recently as 1986, Fleming was the second-biggest manager; now it is ninth. So the houses now at the top of the list certainly cannot relax.

They will lose business if performance slips, but at the same time the market has become more concentrated. The big four were running £115bn at the end of 1993, up 37 per cent in a year. This was about 27 per cent of the UK occupational scheme total, and a much larger proportion of the free market, given that many of the biggest funds are run in-house.

There were indications at one stage that specialist mandates might provide an opportunity for new small competitors to come into the external management business, as they have in the US where boutiques in fact dominate pension fund management.

But the only specialisation to have succeeded in the UK has been index fund management. Even this may be reaching a ceiling as a proportion of the market, at somewhere between 15 and 20 per cent. One of the minor players, Bankers Trust, pulled out earlier this year by selling its £1.2bn UK index funds business to Invesco.

A number of international financial institutions with London operations are trying to break into the UK pension fund business by offering specialist services such as global bond management. They range from Swiss banks like Lombard-Odier and Julius Baer to overseas life companies such as the Australian-owned AMP.

Progress is very slow in the UK, but as it happens there are many new mandates on offer at present from US pension funds, which are greatly stepping up their international exposure.

Those genuine boutiques that survive in London mainly do so by marketing to US clients. This applies to Marathon Asset Management, for instance, and to quantitative boutiques like Panagora and Pareto Partners.

According to Nigel O'Sullivan, of consultants Bacon & Woodrow, UK pension fund sponsors find it hard to accept small firms' names on a short list. In the post-Maxwell climate there is an even greater inclination to play for safety.

When one of the high-profile stars of Mercury Asset Management, Leonard Licht, left in 1992 to move to the little-known Jupiter Tyndall, he took negligible amounts of business away with him. In the US such a move by a personality manager would have had much more impact.

In fact, it is the big balanced managers who are, by and large, taking the specialist briefs.

Not only has the shift to specialisation in the UK proved quite modest, but it is strengthening the stranglehold of the established leaders rather than weakening it.

Unless one of the Big Four spectacularly blows up, the process of concentration within the UK's pension fund management industry could have some way further to go.

Last year there was a very wide dispersion of total returns within the top 15 managers, from 25 per cent to 37 per cent

While some of the merchant banks and independent managers are doing well, life assurance companies are going through a bad period

Performance of segregated funds (to December 31, 1993)

Annualised total return (%)

	Over 5 yrs	Over 1 yr
Newton Investment Management	19.8	37.4
Gartmore Investment Management	18.8	29.4
Queen Anne's Gate Asset Man.	18.5	33.8
Phillips & Drew Fund Management	17.8	28.6
Schroder Investment Management	17.8	32.7
Baring Investment Management	17.3	31.2
Clerical Medical	17.3	31.7
M & G Investment Management	17.2	34.0
HSBC Asset Management Europe	17.2	29.4
Morgan Grenfell Asset Management	17.1	32.6
Cazenove	16.9	30.0
Rothschild Asset Management	16.9	27.0
Hill Samuel Investment Man.	16.8	30.2
Caps Median Fund	16.8	29.2
Lloyds Investment Managers	16.6	29.5
Barclays de Zoete Wedd Inv. Man.	16.6	28.9
Fleming Investment Management	16.5	29.9
Hambros Bank	16.5	30.3
Prudential Portfolio Managers	16.2	28.0
Henderson Pension Fund Managers	15.8	28.4
Scottish Widows	15.4	25.4
Invesco	15.3	26.8

No data provided by:
Baillie Gifford
Capital House
County NatWest Investment Management
Kleinwort Benson
Mercury Asset Management

Source: FT research by Chris Flood

TOP 25 UK SEGREGATED PENSION FUND MANAGERS

	Value of segregated funds £m 1993	1992	% chg	No. of individual funds 1993	1992	% chg	[illegible] 1993	1992	% chg
1 Mercury Asset Management	41,172	33,148	24.2	442	445	[illegible]	[illegible]	[illegible]	[illegible]
2 Phillips & Drew Fund Management	31,240	22,260	40.3	307	282	[illegible]	[illegible]	[illegible]	[illegible]
3 Schroder Investment Management	27,104	18,197	49.4	293	228	[illegible]	[illegible]	[illegible]	[illegible]
4 BZW Investment Management	21,230	17,051	24.5	193	174	[illegible]	[illegible]	[illegible]	[illegible]
5 Gartmore Investment	15,958	10,278	55.3	196	165	[illegible]	[illegible]	[illegible]	[illegible]
6 Prudential Portfolio Managers	11,700	10,500	11.4	85	83	[illegible]	[illegible]	[illegible]	[illegible]
7 Natwest Investment Management	10,567	8,333	13.2	259	209	[illegible]	[illegible]	[illegible]	[illegible]
8 Baring Asset Management	8,779	6,130	43.2	107	102	[illegible]	[illegible]	[illegible]	[illegible]
9 Fleming Investment Management	8,741	7,403	18.1	119	127	[illegible]	[illegible]	[illegible]	[illegible]
10 Morgan Grenfell Asset Management	7,391	5,716	29.3	101	95	[illegible]	[illegible]	[illegible]	[illegible]
11 Lloyds Investment Managers	6,084	4,905	24.0	49	49	[illegible]	[illegible]	[illegible]	[illegible]
12 Henderson Pension Fund Management	5,206	4,762	9.3	82	96	[illegible]	[illegible]	[illegible]	[illegible]
13 Baillie Gifford	5,132	3,205	60.1	69	51	[illegible]	[illegible]	[illegible]	[illegible]
14 HSBC Asset Management Europe	4,804	4,508	6.6	191	207	[illegible]	[illegible]	[illegible]	[illegible]
15 Hill Samuel Investment Management	4,673	3,642	28.3	32	30	[illegible]	[illegible]	[illegible]	[illegible]
16 Legal & General Investment Mngmt	4,107	3,085	33.1	54	46	[illegible]	[illegible]	[illegible]	[illegible]
17 Newton Investment Management	3,240	1,991	62.7	77	62	[illegible]	[illegible]	[illegible]	[illegible]
18 M&G Investment Management	2,968	2,431	21.9	32	34	[illegible]	[illegible]	[illegible]	[illegible]
19 Cazenove Fund Management	2,941	2,827	4.3	74	66	[illegible]	[illegible]	[illegible]	[illegible]
20 Queen Anne's Gate Asset Magmt	2,090	1,875	11.5	15	14	[illegible]	[illegible]	[illegible]	[illegible]
21 Clerical Medical Investment Group	2,085	1,374	51.7	42	36	[illegible]	[illegible]	[illegible]	[illegible]
22 Kleinwort Benson Investment Magmt	1,916	1,666	15.0	67	63	[illegible]	[illegible]	[illegible]	[illegible]
23 Rothschild Asset Management	1,897	1,617	17.3	38	38	[illegible]	[illegible]	[illegible]	[illegible]
24 Scottish Widows Investment Mngmt	1,847	1,833	0.8	23	24	[illegible]	[illegible]	[illegible]	[illegible]
25 Capital House Investment Magmt	1,670	1,750	-4.6	27	36	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL	234,559	181,424	29.3	2,974	2,770	[illegible]	[illegible]	[illegible]	[illegible]

POOLED PENSION FUNDS

	(£bn)
Scottish Widows	3.61
Confederation Life	2.87
Standard Life	2.48
Scottish Equitable	2.08
Provident Mutual	1.76
Mercury Mngd Fund Service	1.36
Prudential	1.29
Newton Exempt	1.02
Scottish Amicable	0.79
Sun Life	0.71

At December 31, 1993

TOP 10 RETURNS OVER FIVE YEARS

Mixed with property funds	Annualised %
Britannia Life	19.4
Glasgow Investment Mngrs	19.0
Gartmore Long Term	18.8
National Mutual Life	18.4
Schroders	18.3
Newton Exempt	18.3
Hambros	18.0
Mercury Mngd Fund Service	17.9
Zurich Life	17.9
Baillie Gifford	17.5
Caps Median	15.6

Data to December 31, 1993
Source: Combined Actuarial Performance Services – 55 funds measured

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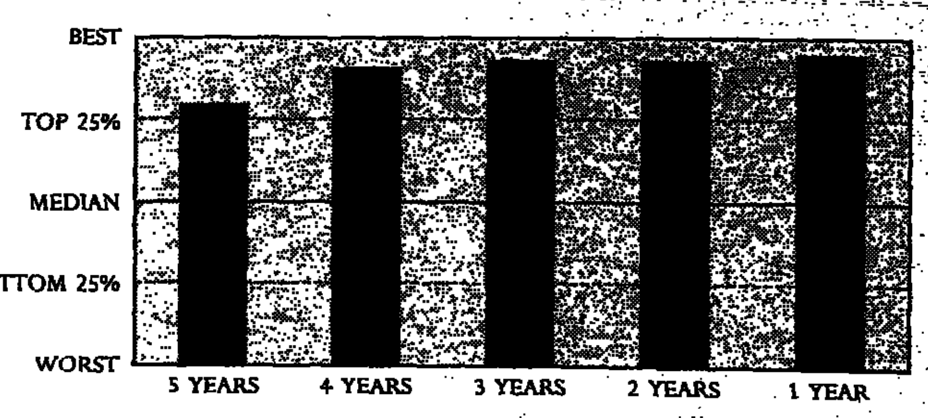

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US funds are likely to increase their overseas exposure, says **Richard Waters**

Companies pressed on discount rates

Volatile US bond markets have brought a high degree of uncertainty to the funding of the country's corporate pension schemes.

Some companies saw their funding deficits balloon last year, as bond prices soared and yields tumbled, while others lurched closer to deficit. Yet just weeks later, with the yield on long-dated bonds up by more than a percentage point, the deficits have miraculously shrunk again.

What are companies – and their shareholders – to make of it all? And what does it mean for the way US pension fund assets are invested?

Since they reflect expectations of future inflation, bond yields act as a proxy for inflation in calculating the present value of a fund's future liabilities.

With bond yields plummetting last year, US companies came under intense pressure to cut the discount rates used to calculate these – in the process, increasing the present value of their pension liabilities.

The Securities and Exchange Commission, concerned that some companies were hiding the true scale of their funding deficits by keeping their discount rates high, last autumn leaned on any company that had a discount rate of over 9 per cent. It wasn't surprising: at the time, the yield on long-term bonds was headed below 6 per cent.

The effect can be seen in the table. Three of the US companies with the biggest deficits slashed their discount rates at the end of last year, greatly inflating their reported liabilities.

Three of the US companies with the biggest deficits slashed their discount rates at the end of last year, greatly inflating their reported liabilities

None of these companies had a rate above 9 per cent at the end of 1992; but at 8.5 per cent, each was at the top end of the range of US companies.

General Motors, which has the biggest deficit in absolute terms (though, in relation to the company's cashflow, it stands out less starkly) said the discount rate change would put it squarely at the conservative end of pension fund accounting. It has set a target of the end of the decade to eliminate the deficit.

The rising bond yields of recent weeks could help GM – and other companies – reach their funding targets much quicker than they had expected. By mid-April, with long-dated bond yields some 150 basis points higher than the low reached last October, most of 1993's escalation in deficits had effectively been wiped out. Market volatility, though, is likely to make companies cautious, and most will prefer to remain conservative in their accounting.

While US companies, under pressure, have looked afresh at discount rates, it is notable that they have done little to scale back their expectations of future investment returns on pension fund assets. The two might have been expected to go hand-in-hand: after all, the same deflationary forces that were driving discount rates lower were at the same time reducing investment returns from fixed income and equity investments. Yet many companies seem to be clinging to investment expectations more suitable to the 1980s than the 1990s.

How will US pension funds address their funding deficiencies – and how will they achieve what in some cases seem extravagant investment expectations? The two questions are closely linked. While many companies have sought to alleviate the strain by issuing shares to their pension schemes, or transferred property and other assets into them, they remain under pressure to lift actual investment returns. International diversification has promised a partial answer.

	Deficit ($bn)		Discount rate (%)		Expected investment return (%)	
	1993	1992	1993	1992	1993	1992
General Motors	22.3	14.0	7.1	8.6	10.1	11.0
LTV	2.0	0.3	7.0	8.5	8.5	8.5
Bethlehem Steel	1.6	1.2	7.5	8.5	9.5	9.5

Source: Companies' annual reports

With yields on US investments falling steadily lower last year, it is not surprising that US pension fund managers directed more of their cash overseas.

The wave of international investment had long been predicted by the brokerage community: in the past two years, it has finally become a reality.

Greenwich Associates, a consulting firm based in Greenwich, Connecticut, estimates that international stocks accounted for 6.4 per cent of US corporate pension fund assets in 1993, up from 5.4 per cent the year before and 4.4 per cent in 1991. International bonds accounted for a further 1.6 per cent, up from 1.3 per cent the year before (the first year Greenwich analysed bond holdings).

By 1996, funds polled by the consultancy firm estimate their international equity holdings will rise to 9.6 per cent of total assets, while international bonds will account for 2.4 per cent.

Domestic equities have remained a relatively stable asset class since the beginning of the decade, at around 29 per cent: the growth internationally has come at the expense of domestic fixed-income investments.

Public pension funds, meanwhile – which account for around half of the US's $2,500bn of pension fund assets – are also beginning to dabble in international equities, though less aggressively. Such investments now account for 5.2 per cent of their assets, up from 2.9 per cent in 1991.

In theory, international diversification is a route to higher returns, while at the same time spreading risk. That argument has been severely tested since early February, when the Federal Reserve began to push up short-term interest rates. The emerging-country equity markets and the vast international junk bond markets that have grown from the restructured debt of developing nations – markets where US pension funds have directed an increasing portion of their cashflow – shuddered at the move.

At the same time, yields on long-dated Treasury bonds have moved up to make fixed income securities more appealing.

This does not mean that the wave of US pension fund money that helped drive capital markets around the world in the early 1990s has dried up: however, the mania for international investment of 1993 is giving way to a more circumspect 1994.

Is the plan for a common European pension approach sunk? **Gillian Tett** reports

Cross-border consensus remains elusive

In public the pension Euro enthusiasts have not yet conceded defeat. In private, though, the mood is gloomy.

Two years after the European Commission embarked on ambitious plans to create a common European pension fund system, complete with cross-border membership and full freedom of investment, the initiative now appears to have been all but sunk.

For although European countries now face similar demographic pressures in their pension fund systems, with rising numbers of pensioners and a shrinking workforce, most member states seem far from ready to sacrifice their national pension quirks in the cause of a common European pension system.

The essential problem stems from the sheer range of pension systems and tax relief regimes operating in the Europe – a state of affairs that leaves some countries, like the UK, relying on advance funding systems, others like Germany, use book reserving, and others, like France, depend on "pay-as-you-go" schemes.

This range has always made it difficult for European employees who wished to move around the union, not least because the different countries have generally refused to recognise each other's tax relief regimes. And so, mindful that pension harmony would be essential for a fully open labour market, the commission has hoped to encourage convergence along two distinct strands.

The first, and most ambitious, has been a call for cross-border membership of pension schemes to allow European nationals to move around the community while remaining members of a single pension scheme.

Most member states seem far from ready to sacrifice their national pension quirks in the cause of a common European pension system

The second, more moderate initiative, has sought to encourage a free flow of pension fund investment across the community, together with freedom of operation for pension fund managers – a step that could potentially revolutionise Europe's capital markets, unlocking huge investment resources.

Recognising that the first of these proposals was too ambitious for most member states to swallow rapidly, the commission began by targeting the second idea, proposing a directive intended to give fund managers freedom to invest overseas or in other currencies, by reducing the investment restrictions that now operate in most member states.

The initiative received considerable support from the UK, Ireland and the Netherlands which impose few restrictions and consequently dominate the overseas investment market – according to the research carried out by the Federation of Retired People, the UK and Netherlands account for some 93 per cent of investment in overseas currencies among EU countries.

However, the proposal was opposed by the other nine member states, where privately funded sectors are extremely limited, and investment restrictions in force. These range from a requirement in Spain and Portugal that pension funds be locally managed, to a German regulation stipulating that private pension funds cannot invest more than 5 per cent of their portfolios in non-German assets.

In an effort to reach a compromise, the commission last year suggested that countries could be permitted to require that up to 60 per cent of a pension fund's assets were matched in national currencies or ECU.

But this received a cool reception at a single market meeting last December, with the three "liberal" countries insisting they were opposed to any restrictions – and the remaining nine demanding a higher limit of 80 per cent.

The Commission responded by introducing more compromises – a text which would have allowed a pension fund manager from one state to act as a fund manager in another was quietly removed; the date of entry of the proposed directive was moved back by a year, to January 1997; and a currency matching limit of 70 per cent was suggested by the then Belgian presidency of the EU.

But consensus remains elusive, not least because the commission itself is adamantly opposed to raising the limit.

"The Commission's view is that after research from experts the 80 per cent limit cannot be justified. There are benefits to be gained for pension fund managers from diversification of up to 35 or 40 per cent," explains one commission official, who insists that higher limits would prevent the free flow of capital around the union – one of the fundamental principles of the single market.

With the Greeks, who currently hold the presidency of the EU, insisting the matter should be a "priority" case, more negotiations are planned in the summer. But observers warn that unless a solution is found soon, the directive is likely to be quietly shelved, not least because the next presidencies will be held by Germany and France – countries where privately funded pensions remain minimal.

Observers warn that unless a solution is found soon, the directive is likely to be shelved, because Germany and France hold the next presidencies

"Personally I do not think anything will go through now," says Mr Brian Hill of the EFRP. He admits the Federation is "very disappointed" by the outcome, which appears to spell an end to plans for cross-border pension membership – a proposal that had been warmly supported by many multinationals who hoped it might allow them to streamline their pension schemes for their European employees.

But although the deadlock has inevitably left countries like the UK disappointed, other observers remain rather more sanguine.

According to Mr Richard Abramson, corporate pension fund manager with Ernst and Young, there is rising corporate pressure for a European approach.

"I have detected an increased interest by companies wanting a pan-European approach. The problem is that it is not possible while the obstacles are still there," he says.

Meanwhile, across Europe as a whole, more and more countries are now moving towards a funded model, he points out, as demographic pressures place their "pay-as-you-go schemes" under intolerable strain. Spain, for example, has seen a gradual growth in the number of funded schemes over the past year, as a result of its own recent pension fund reforms. Meanwhile, France is slowly developing options for personal pension plans.

Some hope that this trend may eventually bring more *de facto* convergence – or even result in a revival of the Commission's proposals. Indeed, as one diplomat who has closely observed the wrangles over the past year suggests, the main problem with the directive may have been its timing.

"Even if countries are moving towards a funded model like the UK, some seem to fear that the directive was pushing them down a path they were simply not ready for yet," he insists. "Almost all the European countries now agree that they have to review their social security systems. The problem is that pensions are a politically sensitive thing."

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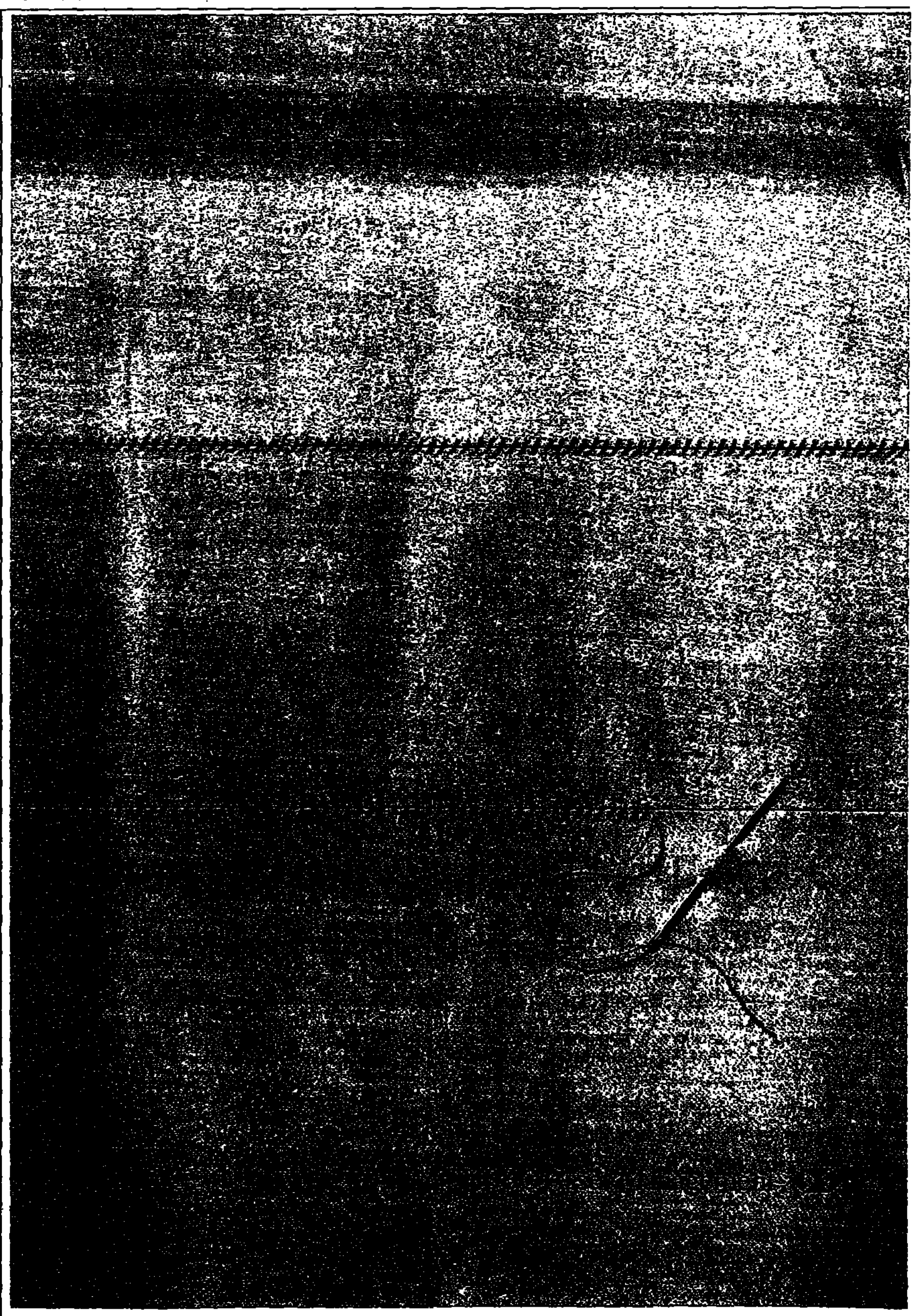

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The past is not necessarily a guide to future performance. *Source: CAPS/The WM Company

Emiko Terazono on Japan's closed-door policy

Call for deregulation

Japan's tightly regulated pension fund industry is liable to be seen by US trade negotiators as another example of the bureaucrats' reluctance to relinquish accumulated power, and to open Japan's doors to foreigners.

However, as the Japanese population ages and concerns over maintaining an elderly society mount, many officials are calling for deregulation of the corporate and state pension investment schemes.

US pressure forced the partial liberalisation of fund management of corporate pension and mutual aid associations in 1990, allowing foreign investment managers into the market.

The welfare ministry also wants better returns on the state pension investments, at present restricted to life assurers and trust banks. It has called for a broadening of investment channels ahead of the expected rise in pension liabilities as Japan's population ages.

However, unlike the social security planners at the welfare ministry, who hope that increased investment returns will reduce the strain caused by the increase in future pension payments, the finance ministry bureaucrats adopt a prudent line. They claim that the government has to guarantee social security benefits, and cannot allow further investments in stocks, which most investment advisory companies excel in.

For many European and US fund management companies, which have failed to gain access to such funds due to the tight relationships between Japanese corporations and fund managers, winning public fund management contracts is the only way they can justify maintaining operations in Japan.

Investment of state pension fund reserves totalling an outstanding Y100,000bn ($136bn) is controlled by the finance ministry, of which a bulk is funnelled into low interest loans for public works.

The finance ministry allows Y20,000bn of the balance to be invested by the Welfare Service Public Corporation, (Nenpuku) run by the health ministry, but rigid finance ministry laws still govern how the organisation invests in the financial markets.

The health and welfare ministry, which is revamping the state pension system and the eligibility age for pensions, also wants to alter legislation limiting the state pension fund investment during the present parliamentary session.

Another concern is the large amount allocated to one manager by Nenpuku. The organisation is only allowed to allocate funds to 14 life assurers and 15 trust banks, with one institution managing as much as Y2,000bn.

Deregulation of the public pension fund market is on the agenda of the bilateral trade talks between Japan and the US and the deadline has been set for July.

"By allowing the 150 foreign and Japanese investment advisory companies in, we want to increase our options and maximise the efficiency of the investments," says Mr Keiichi Fukuyama, a director in charge of pension fund management at the welfare ministry. Nenpuku also wants more competition from skilled European and US fund managers to maximise the returns on investments.

Meanwhile, the corporate pension fund business is also growing fast as more corporations are setting up funds ahead of the next century. Outstanding assets of total corporate pension funds, which only totalled Y462.8bn in 1971, has grown to Y47,212.5bn at the end of March last year.

However, although pension fund asset management was opened up to investment advisory companies in 1990, most of the funds are still managed by trust banks, which at the end of last March were managing 56.9 per cent of the total outstanding, and life assurance companies, which held 42.8 per cent.

The welfare ministry has called for a broadening of investment channels

The investment advisory companies are only allowed to bid for a third of corporate pension funds' new assets, or "new money". Even then they have not been able to win management business from Japanese companies, many of which value old ties and relationships rather than the returns on the investments.

Other restrictions which prevent newcomers into the business and at the same time deprive beneficiaries of returns, include limits on fund allocation. Fund managers are forced to invest more than 50 per cent of the clients' money into safe investments such as bonds and deposits, while a 30 per cent limit is placed on stocks and foreign investments, and a 20 per cent limit is set on real estate investments.

Unlike the US where pension funds invest in venture businesses, derivatives and securitised instruments to maximise returns, the number of asset types to which Japanese fund managers can allocate funds are limited to the conventional stocks, bonds, cash deposits and real estate.

Pension fund assets value their assets at historic cost, or the price at which the investments were made, rather than the actual market price. This helps fund managers to conceal unrealised losses made on stock investments made during the late 1980s. It also inflates the amount of stocks held on the portfolio (since most of the stock investments were made during the stock market "bubble" of the 1980s) and limits the amount of new cash allocated to equity investments.

The ministry of finance claims that it is maintaining regulations on pension fund investments to ensure prudent investments and to secure the funds until full pension payments commence due to the demographic changes at the end of the century.

However, as the day of reckoning draws near, the ministry will need to face the reality – that regulations are only helping fund managers to cover up losses and the state may have to subsidise the low returns due to inefficient investments. The most painless way to correct this situation will be to free the market to more professional fund managers who will maximise returns through more innovative investments.

Norma Cohen looks at the controversy over consultants

'Beauty parade' blues

A handful of top-bracket firms have cornered a disproportionate share of the UK fund management market.

This trend has caused tension between the fund management community and pension consultants in the UK. Fund managers complain, privately, that in spite of extensive "beauty parades" – at great expense to the client and requiring great effort by the fund manager – it is always the same handful of firms which turn up on the short list.

The Institutional Fund Managers Association (Ifma), recently wrote to the Society of Pension Consultants asking that its members simplify the extensive questionnaires which are sent to fund managers who are to be considered for a beauty parade. Mr Richard Weir, director-general of Ifma, said that some of these can run to 300 pages and simply seek information already duplicated in annual reports which fund managers make to consultants.

For their part, consultants say that even when they try to suggest innovative choices to trustees, their audience, because of its inherently conservative nature, is unwilling to take a chance on a fund manager who bucks the trend either in asset allocation or in approach to investment.

"The concentration has occurred partly through business risk-aversion," said Mr Bruce Pullman, a director at Quantec, a consultancy firm specialising in quantitative fund management techniques. "You do not get fired recommending that you buy IBM stock." This is in marked contrast to the US which, with its huge diversity of fund managers, has seen increasing dispersion of mandates.

Yet, the process of manager selection in the US is also guided largely by consultants, who, like their UK counterparts, are usually actuaries. Indeed, in some cases, the UK and US consultants are members of the same firm.

What is so puzzling is why supposedly similar advisers in two different countries, when advising roughly the same sorts of businesses should offer such strikingly different advice.

The answer, both consultants and trustees say, is complex, but much of it has to do with the genesis of the relationship between pension funds and their investment advisers. Also, the growth of the performance measurement industry in both countries and regulatory differences between the US and the UK have tended to encourage US pension schemes to seek many managers while UK schemes seem content with only a few.

While US pension schemes are likely to use numerous specialist managers, each with expertise in investing a particular asset class, UK pension schemes have until now overwhelmingly preferred balanced mandates in which one or two managers have discretion over both asset allocation and stock selection.

According to a survey of the UK pension fund market in 1993 by US-based Greenwich Associates, UK corporations using balanced managers have remained roughly stable at 79 per cent of those surveyed for the previous five years. But among the UK subsidiaries of US companies, only 56 per cent seek balanced management, down from 79 per cent in 1989.

Overall, both consultants and fund managers say, the trend towards specialist management in the UK could well end the trend to greater concentration of assets in the hands of fewer and fewer managers. Indeed, new research from Combined Actuarial Performance Services (Caps), the performance measurement service, suggests that for the first time, the use of specialist managers in the UK is growing.

Meanwhile, performance measurement in both countries has helped shape the nature of manager selection. The fact that UK fund managers are measured against their "balanced" peer group means it is dangerous to take a big bet on asset allocation. This means that managers are increasingly holding exactly the same asset mix regardless of the client's needs. For trustees, fund managers may look pretty much the same and there is little mileage in choosing one which is not a big name in the business.

But in the US, such comprehensive benchmarks simply do not exist. Mr John Williams, researcher at WM Company, another UK performance measurement service, notes that while his service covers roughly 77 per cent of all UK pension assets, no US benchmark covers more than 20 per cent. Because benchmarks are less comprehensive, the concept of an industry norm does not exist in the same way and clients are more willing to consider a wider variety of fund managers.

But the reasons for the divergence between the US and UK may be rooted in history. "Historically in the US, the people who handled a company's commercial banking

Continued on page 5

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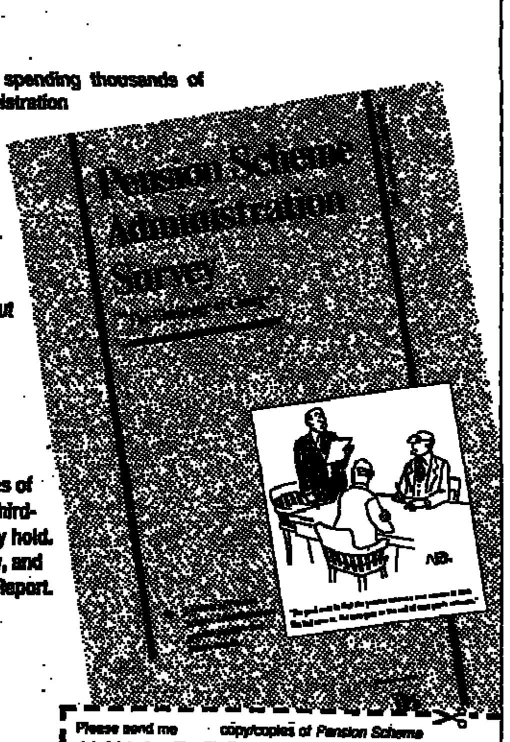

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The Goode report may be more radical than it seemed, says **Norma Cohen**

Solvency debate hots up

The fund management industry breathed a sigh of relief last September, when the government's advisory panel on pension regulation produced only a modest blueprint for reform.

The pension law review committee, chaired by professor Roy Goode, could well have recommended a sweeping overhaul of pensions law so draconian that employers *en masse* would have abandoned their commitment to the traditional final-salary pension schemes.

Not only would that have left many workers bereft of retirement incomes, it would have decimated the UK fund management industry which has grown up on investing the assets of final salary schemes.

Instead, the Goode committee set itself the more modest goal of considering reform which would do no more than ensure that any pension promise made in respect of past service would be fully honoured.

The initial reaction, including that of the Confederation of British Industry, the main UK employers' body, was overwhelmingly favourable.

The main recommendations called for a new pensions regulator; an industry-wide compensation scheme, to cover fraud, theft or misappropriation; a requirement that each scheme have at least one third of its trustees appointed by the members; and a requirement that all schemes meet minimum solvency standards. Schemes that did not meet at least 90 per cent of the minimum standard would have three months to add cash to make up the shortfall.

However, since then, there has been ample time for a rethink; and upon closer examination, the Goode committee recommendations may be far more radical than they at first appear. This is because there are employers who make pension promises that they cannot say, with hand on heart, they will be able to meet.

In particular, the outcry has been over the proposed minimum solvency standard. The debate has left the actuarial profession sharply divided over exactly what this will mean for schemes and their investment advisers.

Roy Goode's recommendations may be more radical than at first thought

The reasons for the outcry have to do with the way solvency is calculated. A scheme would have to show that it had enough assets to purchase accrued benefits for all members on a cash-equivalent basis, to be certified annually by the scheme actuary.

However, while UK pension schemes on average hold 80 per cent of their assets in equities, cash equivalents are calculated according to yields on gilts, which historically have yielded less than equities. R. Watson, the firm of consulting actuaries, warned that holding schemes to that rule would require wholesale shifts out of equities and into bonds, forcing employers to add cash particularly to mature schemes.

Other firms of consulting actuaries have firmly disagreed with the analysis. At William M. Mercer, actuaries produced data showing that the average fund would only have been required to add cash to meet minimum solvency requirements immediately after the stock market crash of 1974, and that even then, rises in share prices over a five-month period would have bailed out most schemes.

In March, the Institute and Faculty of Actuaries, after studying the issue for several months, recommended to the Department of Social Security some changes in the way cash-equivalent yields are calculated, intended to address some of these concerns. Under those proposals, scheme actuaries would calculate cash-equivalent values for each individual member based on age.

For the youngest members, cash-equivalent values would have a high equity component, declining steadily as the individual neared retirement age.

The debate over the solvency standard has left the actuarial profession divided over exactly what this will mean for schemes and investment advisers

The DSS has sent the proposals to the CBI and others in the industry for comment.

It also suggested that, should the minimum solvency proposals find their way into law, there should be a five-year phase-in period.

DSS sources have said that, of all the interest groups making representations to government over the final form of any pension reform bill, the CBI is the most significant. To date, the CBI has not made its response known.

However, a CBI spokeswoman said the group was likely to say that, while it views the proposals as a step in the right direction, "the government should go further". Any effort requiring employers to add cash to schemes will prompt the abandonment of final-salary schemes "and that is not in anyone's interest".

The CBI has other objections to the Goode committee proposal on minimum solvency. First, the three-month period given to a company to make good a shortfall below 90 per cent solvency ought to be raised to three years; while the three-year period which a company has to increase assets from 90 to 100 per cent of solvency ought to be increased to the average remaining service life of the scheme.

However, the government runs the danger that, in its efforts to meet the objections of the CBI, it may recommend a package of pension reforms which leave a scheme members little better off than they are today.

"The report has to be seen as a single package," warns Prof Goode. "Unless all of its elements are adopted, the others will be far less effective in protecting pensioners and more expensive to administer than they would be otherwise."

Also, CBI members have yet to take on board the fact that many of them are indeed too heavily invested in equities given their own maturity profile. "It is the age of the scheme that dictates asset allocation and not the minimum solvency standard," said Alastair Ross Goobey, chief executive of PosTel, the UK's largest pension fund and a member of the Goode committee.

Schemes with low cash flow from contributing members could well find that, while equities outperform bonds over time, there may be years when slow dividend growth does not deliver enough cash to meet liabilities. The pensions promise would then have to be met by a cash contribution from the employer.

Thus, even if the CBI persuades the government to further water down the requirements for minimum solvency, employers will not have escaped their problem.

Now the froth has been blown off, the future of markets becomes clearer

Property likely to be the star

Merchant bankers and brokers were not the only ones to collect large bonuses at the end of 1993. Fund managers also had a vintage year, with UK equities offering returns of 27.9 per cent and UK bonds only slightly behind at 25.1 per cent.

The real star performance, however, came from overseas equities which, assisted by currency gains, rose by 39.4 per cent. With that kind of performance, there was plenty of Christmas cheer. Interest rates fell, bonds boomed, mainstream equities soared and emerging markets disappeared into the stratosphere.

Last year was one in which everything went right. Still, it did not look quite that rosy halfway through the year: in UK equities, there was a 40 per cent difference between the performance of the best and worst sectors in the first six months of 1993. Correct stock selection was thus critical to securing good performance.

It was only in the last quarter that markets really caught fire. Driven by the last leg of the bond bull markets, equities were driven to ever lower yields. In the UK, interest rate-sensitive equities did particularly well, and the passion for multimedia, along with the relaxation of rules for ownership of ITV companies, made media stocks star performers. Overseas, emerging markets offered dramatic returns in the run up to Christmas.

After three years in which prices fell, UK property also did well: total returns were 18.5 per cent. Again much of the rally came late in the year, and property also suffered from the illiquid nature of the market. Many funds were established to invest in the high returns available, but it was difficult to get money into the market. Since property yields were higher than gilt yields for most of the year, it was a natural investment for anyone concerned about inflation.

Thus far at least, 1994 has been very *different. UK gilts peaked right at the end of last year, and equities topped out on February 2 after the US Federal Reserve started to raise US interest rates.* The change in policy had been anticipated, but the psychological shock to the market was severe. Led by Wall Street, equity markets have tumbled, with some of the best performers in the run up to Christmas showing the sharpest falls.

To some extent the correction is a healthy reaction to markets which had become severely overcooked. Long UK gilt yields of about 6 per cent were not really justified by the heavy government borrowing requirement and the poor UK inflation record.

The enthusiasm for all forms of assets, which came with continually falling interest rates, blocked out reasoned assessment of which represented value. A heavy inflow of private investors' money into savings bonds, unit trusts and equities exacerbated the trend, as did the move by overseas investors into the UK market. The notorious "hedge funds" may not have been as active in UK markets as legend by now tells, but they certainly helped fuel the rise.

Now that the froth has been blown off the market – equities fell by almost 400 points and bond yields rose by almost 2 per cent – it is perhaps possible to take a more sober view of what the rest of the year holds. Short-term US interest rates are likely to continue to rise from the current level around 3.75 per cent to around 5 per cent by early in 1995.

But that need not mean UK rates will have to follow slavishly. As the impact of tax increases becomes clearer, there may still be small falls in UK rates, and that may be supported by the continued decline of interest rates on the continent.

Despite the concerns of many, the underlying inflation picture in the UK remains good, and the balance of *payments and public sector borrowing deficits are not quite as horrendous as feared.* It is also clear that the chancellor wants *interest rates to come down further.*

Provided the inflation numbers remain comforting, that should offer some succour to the gilts market. Yields of around 8 per cent look much more attractive given the historical UK economic performance. While buyers may remain nervous as the market stabilises, 8 per cent will probably start to look like reasonable value. That confidence should help underpin the equity market. The FT-SE 100 index seems to have found support around 3100, and some selective buying has re-emerged. However, that selectivity will probably remain the key to success. Cyclical recovery shares already discount large earnings rises, but there may still be some potential for those companies which can increase dividends above the market average.

Dividend increases in the reporting season just past were higher than expected, and some companies are making haste slowly towards the aim of higher dividend cover. Many utilities – notably the regional electricity companies – still have substantial dividend cover and growth prospects. With market dividend yields around 4 per cent and dividend growth around 5, equities offer attractive 9 per cent returns before prices rise at all.

If the general mood in asset allocation is to be somewhat underweight in UK bonds and selectively overweight in UK equities, there is also a strong urge towards being overweight in property. The difficulty of getting money into the market remains, but for anyone worried about potential inflation problems, property yields only slightly below those of conventional gilts look very interesting. Location is all important, but property is likely to be a star performer in 1994.

Bernard Gray

'Beauty parade' blues

Continued from page 4

relationships also managed their pension funds," said John Gillies, client executive at Frank Russell International, the London-based offshoot of a US consulting firm. But they did not do it well and by the 1970s US pension funds were looking for alternatives.

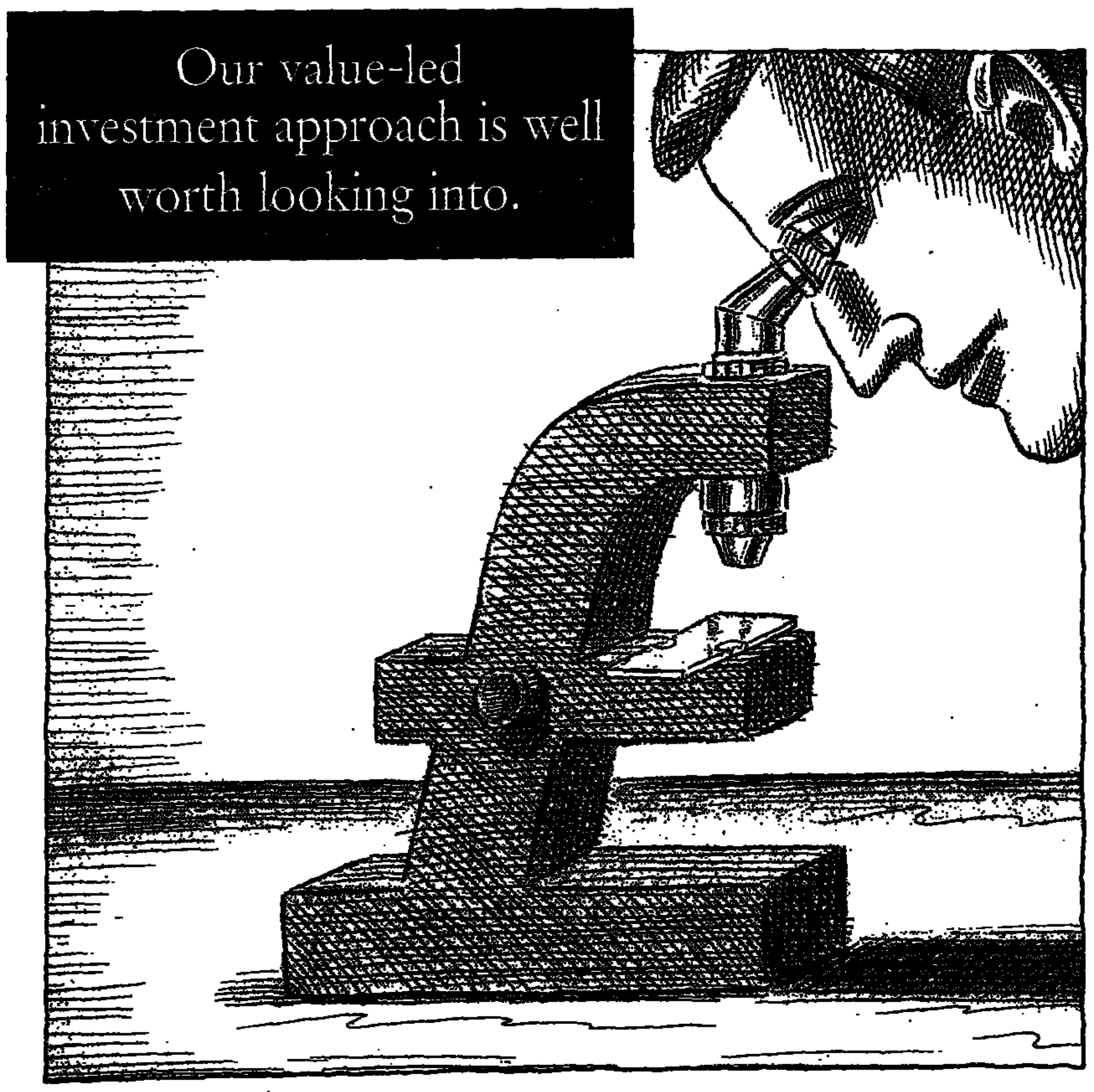
By contrast, UK investment banks were also managing the pension assets of their clients as well, but because they did not see lending as their core function, they took investment management much more seriously. In the UK, for a very long time, pension funds have been largely satisfied with the performance of their fund managers.

Research from Caps shows that, despite the accusation that UK pension fund trustees – or indeed, consultants – are too short term in their approach to manager selection, the average fund manager lasts 7.25 years with a single client.

But by the early 1970s the science of performance measurement was being perfected in the US, and it became obvious to pension managers that their funds were not being invested well, Mr Gillies said. Then in 1974 the "Erisa" legislation took effect in the US and companies were forced to pay more attention to investment returns, he said.

And while a UK fund manager is typically reporting to a board of trustees of a pension fund client – typically containing human resources professionals and a few scheme members as well – the US fund manager is reporting to a pensions manager and a corporate finance director. "For a finance director, there is a much sharper link between corporate needs and pension fund performance," Mr Gillies said. At the same time, US academics were putting to use some of their newly developed theories about portfolio management, and these appealed to corporate finance directors who were also using them in other parts of the business.

It was relatively easy, he said, to urge US pension schemes to consider a large number of specialist fund managers, each with expertise in different asset classes.



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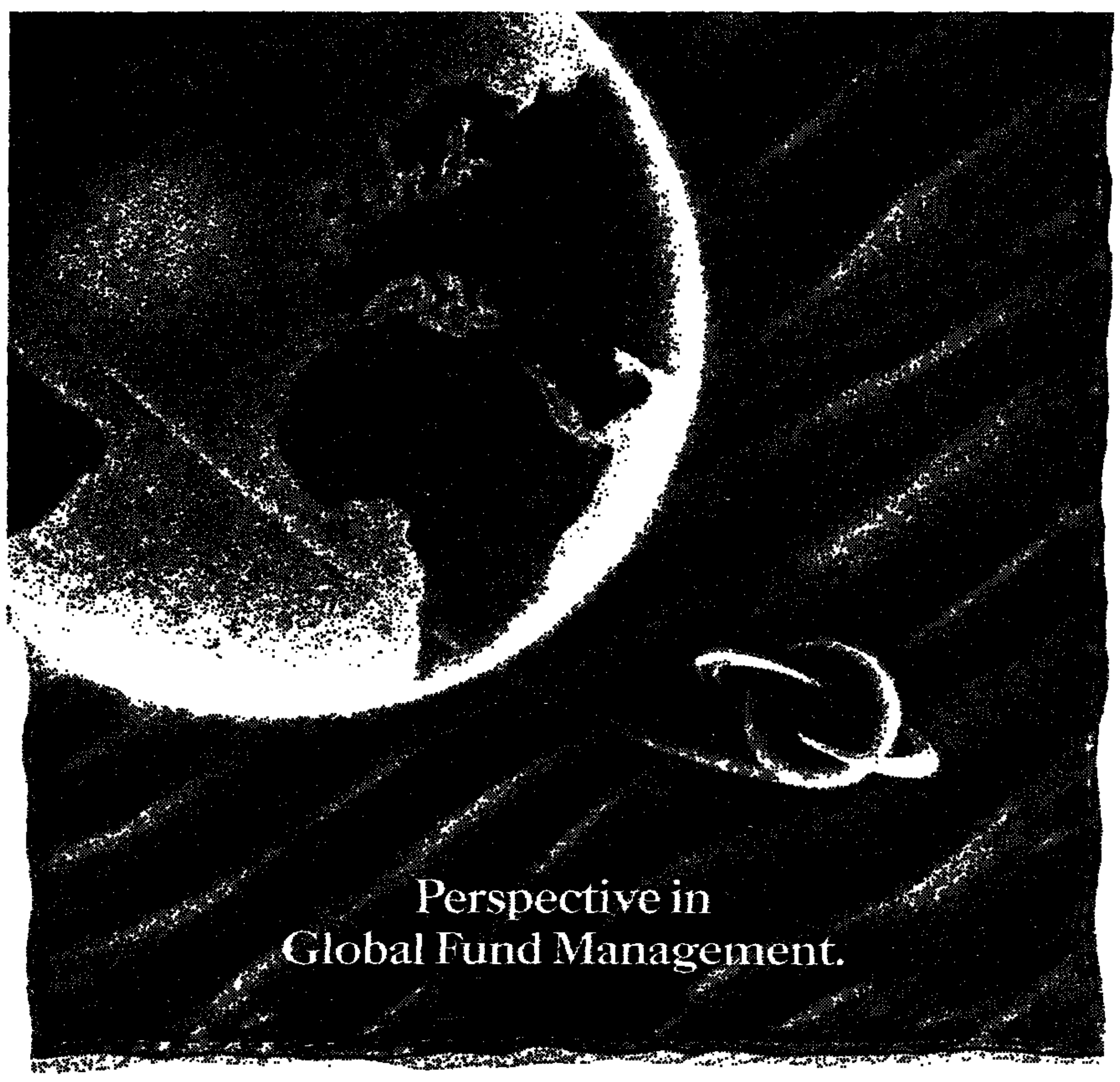

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Asset-liability studies: balance becomes more critical

Maturity requires lower risks

Leading investment managers say that some 60 per cent of *UK pension funds are still* setting peer group-related *performance targets, such as beating* the median fund or staying in *the second quartile of funds*.

But trustees are becoming *aware that, as their schemes* become more mature, it is *increasingly less likely that an* average or consensus strategy *will be entirely appropriate for* their particular circumstances.

Last year, an industry-wide survey by the fund managers PDFM showed that 34 per cent of funds were being significantly influenced by asset-liability modelling in setting their portfolio structure – up from 20 per cent in 1991.

Moreover the Goode committee's recommendation of a minimum solvency standard, which is likely to be taken up and developed in a forthcoming *pensions white paper*, with legislation to follow in 1995, has triggered a furious debate within professional actuarial circles.

R. Watson, a leading firm of consulting actuaries, said last week that *half of its client* schemes worth £100m or more *would have failed to meet the* Goode 100 per cent standard in March 1993. At the most recent major stock market trough in September 1990 two-thirds would have been below even the critical 90 per cent level.

Mr Andrew Wilson, a Watson partner, says the figures illustrate "the need for schemes to consider increasing assets *beyond the ongoing funding* basis established before the Goode Report, or change investment strategy to reduce volatility."

The recent decision of the British Rail pension scheme to allocate something approaching £1bn to specialist bond portfolios is a sign of the change of climate. Many big, *well-established schemes, both* in the public and private *sectors, are catering for much* reduced current workforces, but still have large numbers of pensioners – both in current payment and deferred – on their books.

For such schemes, the liabilities to pay benefits are no longer primarily stretched into the distant future but are *bunched in the next 10 or 20* years; and indeed, in many *cases there is a constant net* cash outflow as benefit payments already exceed contributions. The average NAPF *member scheme now has only 5,000* current members against 4,700 *pensioners in payment and* 2,800 deferreds.

Although the biggest category of liability is therefore in *respect of final salary-linked* pensions, for which an equity portfolio is generally considered to provide an appropriate long-term match, schemes also have large liabilities to pay current pensions and provide for deferred pensions.

These liabilities are different *in nature as well as timing*. Deferred pensions, for *instance, are* statutorily subject to so-called limited price indexation (LPI) – rises in line with the retail price index up to a ceiling of 5 per cent.

As for pensions in payment, the picture is much more complex. Many schemes raise pensions by something like 3 per cent a year, others apply the LPI formula, and many public-*sector schemes offer full index*ation. Quite often private-sector schemes raise pensions in line with prices in practice, but do not guarantee it.

Matching these liabilities with equities, or with a standard pension fund asset mix, is looking increasingly hazardous. The purpose of an asset-liability study is to set out the profile of benefit payments, *and suggest an asset structure* that could more safely gener*ate the required cash.*

Last year, index-linked gilts, *for instance*, received £2bn of extra investment from pension *funds, according to WM*, making this the most popular asset *category for new money*. WM attributes this to the desire of *some funds to* match liabilities more closely.

Conventional fixed-income gilts offer lower investment risk, but on the other hand they do not provide a close match for most scheme liabilities, except for fixed pensions. It has been argued that an LPI gilt might prove an attractive innovation to many funds. The Goode committee *itself* suggested that deferred income index-linked gilts would be a valuable introduction.

The proposal for a minimum solvency standard is critical here, and has set the cat among the pigeons. Until now, actuaries have been able to absorb most market price fluctuations of long-term assets within the reasonable assumptions of their valuation basis. *So long as there is no reason to* project a decline in long-term real dividend growth, for instance, a stock market tumble can be ignored.

But this degree of flexibility is destroyed when a market value-based solvency test is used. Already, some actuaries have become worried about the results of the non-statutory discontinuance tests, which they apply to schemes to check whether there would be enough to pay the current benefits if the schemes were wound up tomorrow. The problem has arisen because of the recent tumble in annuity rates.

Now this problem looms much larger, because of the Goode committee's proposal to apply a statutory minimum solvency requirement. With schemes holding a record 80 per cent in equities in their portfolios, they would be exposed to the risk of being forced to top up their schemes after an equity market crash.

The investment implications could be quite profound. In theory, for instance, UK pension funds might be advised that, in due course, they should reduce their equity exposure towards the levels seen in the US. *There, market value-based* valuations are the rule, and the average equity exposure of defined benefit schemes is only about 50 per cent.

Mr Robert Ross, of consultants Frank Russell, has argued that there would be great risks in funds holding nearly 60 per cent of their assets in a single asset class, UK equities, as they do now.

Alternatively, UK schemes might decide to retain a high exposure to equities, but use portfolio insurance techniques through the derivatives market, in order to protect them against the downside risk of a sharp fall in share prices.

Since, in the long run, bonds, for instance, have returned 5½ *per cent a year less than* UK equities, a big switch to non-equity assets could force actuaries to recommend significantly higher contribution levels. Using derivatives would also involve a net reduction in returns.

There is a paradox here, in *that weakly-funded schemes* are precisely those that need *the highest returns*, but in future circumstances they may *be least able to accept risks.*

A vigorous debate is certain to take place on the proposed solvency laws before they are introduced, but whatever happens consultants offering asset/liability modelling are likely to have a busy time.

Barry Riley

Norma Cohen discusses custody of stock and bond certificates

Cost the deciding factor

The finance director of a small textiles firm based in the north of England recently surprised an independent consultant appointed to advise his pension scheme. Asked about the scheme's arrangements for the custody of its stocks and bonds, the finance director opened the door to the safe in his office.

There, on a shelf, were the share certificates belonging, ostensibly, to scheme members.

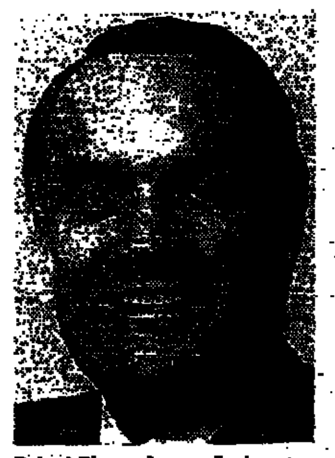
"I suggested to him that this was not considered best practice in the industry and he said 'Are you questioning my integrity?'," the consultant recalled, no doubt mindful of the more conventional approach under which securities are sent for safe-keeping to banks.

At the other end of the spectrum, lies a group of banks which has built significant businesses acting as master "global custodians" for the assets of some of the UK's biggest pension funds. In the aftermath of the Maxwell affair, in which £440m disappeared from pension schemes controlled by Robert Maxwell, the group has sought rules requiring appointment of a custodian separate from the fund manager.

It is alleged that hundreds of millions of pounds were spirited out of the pension schemes because the fund managers also acted as custo*dians to the scheme and* handed over stock and bond *certificates* on the instructions of Mr Maxwell.

The Goode Committee was asked to consider at some length whether pension schemes should in fact be required to appoint a custodian independent of the fund manager. Lobbying hard on the other side of the issue was a well-organised group of lead*ing fund managers all of* which provide custody ser*vices for their clients.*

In the end, the Goode Committee stopped well short of recommending the appointment of an independent custodian. The report goes to great lengths to explain the group's thinking. "The question we have to consider is whether the additional protection



Robert Binney: larger clients are seeking competitive pricing

which would be given by the appointment of an independent custodian so outweighs the expense and possible *administrative problems that* it should be made compulsory," the report said. In a footnote, the report referred to recent studies by the National Association of Pension Funds and management consultants Booz Allen and Hamilton showing that because of the *charging structure of custodi*ans, clients may be unaware of exactly how much they are paying for the service.

"We are not satisfied that use of a custodian would necessarily prove a significant obstacle to a determined wrongdoer unless custodians were to be required to assume a considerably more active *monitoring role than they now* perform," the report said.

Instead, "trustees should periodically review their custody arrangements and satisfy themselves that these are satisfactory," the report said.

Meanwhile, regulators have rejected the idea of tighter oversight of custodians generally. The Securities and Investments Board, the City's chief regulatory watchdog, has con*sidered whether it ought to* regulate custodians directly and concluded that, for now, it should not.

In the US, however, the 1974 Erisa legislation, setting out the rules under which pension schemes are to be administered, specifically requires independent custodians. Moreover, custodians are required to refuse to honour any

The Robert Maxwell affair raised questions about separate custodians

instructions which *they* have reason to believe are not in the *best interests of members.*

Supporters of similar rules *in* the UK note that a theft on the scale of Mr Maxwell's did not occur on the other side of the Atlantic.

However, there may be more to the Erisa legislation than simple recognition that independent custodians offer greater safety. Unlike the UK, *fund managers operating* around the time of the Erisa legislation typically were unable to offer custody services. That had been left up to the largest US commercial banks which had once been the chief providers of pension fund management services but were no longer.

In effect, the Erisa legislation *simply* codified what was effectively best practice already in the US, just as the Goode Committee suggests codifying what is best practice in Britain. However, it may be market forces rather than the effect of any legislation which *forces* changes in UK pension funds' choice of custodian.

Mr Bruce Pullman, a director at Quantec, a consulting firm specialising in advice on *quantitative fund management*, notes that the increased use of "specialist" fund managers will force pension funds *to* seek independent custodians. "In the US, General Motors has about 40 fund managers for its pension scheme. The thought of having 40 different custodians is absurd."

Moreover, there is evidence that pension fund trustees, partly with the guidance of their consultants, are taking a much harder look at costs.

Officially, most of the UK's larger fund managers say they do not charge separately for custody services and a client who places the custody of *his* funds with an independent firm will receive no reduction in charges.

Mr Gordon Lindsey, head of custody services at S.G. War*burg* which owns 75 per cent of Mercury Asset Management, said that the company uses a single data base for its fund management operations and custodial activities. If it were required to send instructions to an independent custodian, MAM would actually incur greater *costs and* it would have to charge the client accordingly.

However, many clients now realise that in addition to the headline fee charged, custodians are often earning a turn off their portfolio in foreign exchange, treasury management and stock lending. Increasingly, they are calculating the all-in cost of their custody service and seeking *to* "unbundle".

"Unbundling is a trend *driven by best practice*," said Mr Robert Binney, business executive at Chase Manhattan's global securities services division.

Larger clients, he said, are now seeking competitive pricing from custodians for all of these *services*, something that pension schemes relying on their fund manager's custodian simply cannot do.

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Fund managers are taking a far more serious interest in emerging markets

Pace of investment quickens

Not many years ago, many pension fund managers regarded Mexico as a good place for hats but certainly not as a serious investment prospect. Political uncertainties, custodian and settlement problems and the lack of trading liquidity associated with so-called emerging markets far outweighed brokers' claims of the huge returns which could be made.

Yet the outstanding performance of emerging markets since the late 1980s and the strong investment cult that has grown up have prompted a growing number of pension fund managers to take a far more serious interest in these fast-developing economies in Latin America and the Pacific Basin. Ex-communist bloc countries in central and eastern Europe which are now pursuing free market economics are also attracting their attention.

Mr Peter Jeffreys, managing director of Fund Research in London, says that UK pension funds have been fairly slow to accept emerging markets as a separate asset class, mainly because of the lack of liquidity. However, the growing number of dedicated emerging market funds appears to have helped to reduce their concerns.

He notes that the scale of institutional investment in emerging markets is still very small. He estimates that just under 1 per cent of institutional equity assets are in emerging markets which in turn account for around 6¼ per cent of the world's stock market capitalisation. "There clearly is massive scope for more of this kind of investment," he says.

For the pension funds which invested in emerging markets before they became fashionable, the rewards have been large. According to Lipper Analytical, closed-end global equity funds in emerging markets made total net asset value (NAV) returns in dollars of 382.6 per cent over five years to the end of 1993. This compared with total NAV returns of 74.6 per cent in developed markets.

Dutch pension funds have been among the first to spot the opportunities in emerging markets, which account for 80 per cent of the world's population and 15 per cent of the world's economy

Dutch pension funds have been among the first to spot the opportunities in emerging markets, which, according to the World Bank, account for 80 per cent of the world's population and 15 per cent of the world's economy. Pensioenfonds PGGM, the second largest pension fund in Europe and the largest private pension fund in the Netherlands, started investing in emerging markets in 1986 and now has 5 per cent of its Fl 15bn ($7.8bn) equity assets in these markets. Mr Marinus Keyzer, PGGM's chief economist, says that this percentage is expected to rise to 7½ per cent of the fund's equity assets in the near term.

Mr Keyzer gives both professional and altruistic reasons for PGGM's decision to invest in these markets. First, he points to what he calls the "demographic time bomb" in western Europe where the population is getting older and the birth rate is declining. "It is the opposite in emerging markets, where the population is much younger," Mr Keyzer says.

The demographic advantage of emerging markets is strengthened by their fast-developing economies where the growth rates far exceed those in OECD countries. "We are investing in new and dynamic companies which will become market leaders in those countries," says Mr Keyzer.

He adds that as a pension fund, PGGM has a responsibility to make a social investment in these countries and by investing in their stock markets, it is contributing to the growth of their economies and the formation of their capital markets.

Although PGGM takes the strategic investment decisions in-house, it uses outside managers to manage its holdings. Of its investment of Fl 750m, Fl 600m is held in a growth fund established by the International Finance Corporation (IFC), the private-sector arm of the World Bank, but managed by Los Angeles-based Capital International.

The growing number of pension funds which have investments in emerging markets also tend to use outside managers rather than invest directly in these markets though there appears to be a trend towards building up in-house expertise.

Postel Investment Management, for example, has been involved in emerging markets for some years but until the arrival of Mr Allan Conway as head of overseas equities in September 1992, the investments were handled by the Far Eastern and US investment managers. "The smaller markets tended to become a side issue and therefore were neglected," Mr Conway says. "Also, the investment minds are different. Somebody used to covering the US or Japan has a different approach to someone looking at Indonesia or Peru."

Postel now regards emerging markets as a separate asset class and has set up a centralised team of investment managers to assess global emerging markets. "This front-line decision has enabled us to significantly increase our exposure," Mr Conway says.

Postel has about 2 per cent of total assets of £28bn in emerging markets, and Mr Conway expects this proportion to grow over the years. "But I'm not sure we will get to 30 per cent," he says, referring to the level which some modern portfolio theorists put forward as the optimum for achieving minimum risk and maximum return in a diversified equity portfolio.

By contrast, some pension fund managers are unwilling to pay the premium which is now inherent in emerging markets. Mr John Hemingway, deputy-chairman of PDFM's investment committee, is distinctly unenthusiastic about emerging markets at present. "We are value investors and we don't like overpaying for assets," he says.

PDFM has virtually no exposure to emerging markets, apart from Hungary. "Many investors say these markets won't go below the average world price/earnings rating but we are not convinced by that," he says.

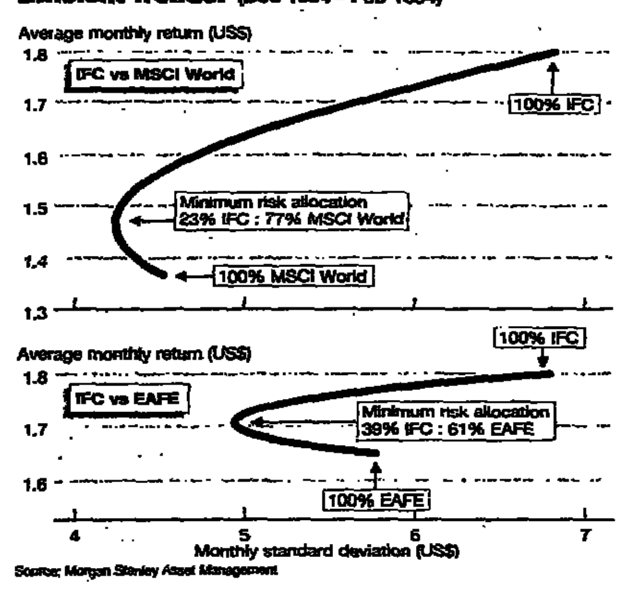
For example, PDFM invested heavily in Hong Kong after the Tiananmen Square massacre. "Hong Kong was then on a p/e of eight and had eight years to run before the handover to China," says Mr Hemingway. PDFM sold out last year when the market's p/e hit the high teens and there were just three years left before the colony was returned to China.

Mr Hemingway, describing his investment approach as that of a vulture rather than an eagle, points to various markets which have fallen out of favour due to political or economic woes, such as Mexico or Turkey, which might become interesting in the coming months. "We look to buy at a discount to the average world market rating in order to compensate for the political risk," he says.

Mr Hemingway adds that some clients have asked for explanations why PDFM has not participated in the cult of the emerging market. He says they have accepted his reasons against a background in which the fund has performed well for them. "An outperformance of 1 or 2 per cent on 50 per cent of the fund's assets is better than a 10 per cent outperformance on 0.5 per cent of the assets," he says.

Antonia Sharpe

Efficient frontier (Dec 1984 - Feb 1994)



Source: Morgan Stanley Asset Management

The graphs show that for the given time period, an investor with a portfolio invested solely in the developed markets (in these cases, the MSCI World and MSCI EAFE indices[1]) could have reduced his risk (as measured by standard deviation) while increasing his return by adding to his portfolio emerging market equities (in both cases, the IFC index[2]). The "minimum risk allocation" of each scenario is shown on the graphs. As more emerging market equities are added above their "optimal" allocation, the return increases but the risk is also greater.

1 Morgan Stanley Capital International World Index and Morgan Stanley Capital International EAFE (Europe, Australia, Far East) Index
2 International Finance Corporation Global Total return Emerging Market Index

CORPORATE GOVERNANCE

The focus shifts to boardroom pay

When the Cadbury Committee report on corporate governance was completed *some 18 months ago the main public focus* was on the issue of splitting the role of chairman and chief executive to provide a proper system of checks and balances in the boardroom.

With memories of the Maxwell scandal still strong, there was a preoccupation with the need to prevent companies falling under the control of powerful individuals who might abuse their position. Since then the number of companies who combine the two roles has diminished. Barclays Bank, for example, appointed Martin Taylor as its new chief executive last year. The focus of debate has moved on to boardroom pay.

Part of the reason is the apparent sharp increase in directors' remuneration at a time when wages are being restrained and shop floor jobs cut. Probably more significant is the way some companies have paid large *sums to directors whose performance* has fallen short.

Concern has focused on the £2.2m payoff to Chris Greentree following his departure as chief executive of Lasmo, the oil company. Other examples include the large options and bonus package promised to Robert Montague, founder of the troubled Tiphook container concern, to compensate him for a cut in salary to £200,000 from £816,000. Though the fortunes of British Aerospace turned round while he was chairman, John Cahill aroused controversy as a result of the multi-million pound package he received on his departure.

A large payment to Mr Cahill was inevitable given that he was leaving in the middle of a five-year contract. Much of the apparent inequity of such payments stems from the contracts which directors *secured at the time of their appointment.*

"We're going to be seeing for some time *the consequences of contracts that* were entered into in the 1980s. There are going *to be very few of these contracts in the* 1990s," says Mr Alistair Ross Goobey, chief executive of Postel.

Mr Ross Goobey last year launched a campaign to put an end to three-year rolling contracts, which are not outlawed by the Cadbury report but which make it hard to dislodge poorly-performing directors without large compensatory payments. Since then, he says, there has been a definite trend for the length of contracts to be reduced and for more discipline on payments in lieu of notice.

Another reason for the concern about boardroom pay is that many options schemes first launched in 1984 are coming up for renewal this year. This has opened *up a broad debate about how such* schemes should be constructed.

M&G Group, the UK's largest independent unit trust company, faced protests over its new scheme which will allow executives to buy share options at current market prices and exercise them after three years, providing the share price rises. The move contravened recommendations from the National Association of Pension Funds (NAPF) and the Association of British Insurers who want to limit executives' freedom to benefit from options unless the company has genuinely improved its performance.

Agreeing that something needs to be done, though, is one thing. Deciding on an appropriate solution is another.

Institutions do not want to intervene too directly. "Unless something's egregious, the business of managing a company should be left to the management," says Mr Geoff Lindey of J.P. Morgan *Investment Management and* vice-chairman of the NAPF investment committee. *The structure of remunerations schemes* should, however, be within a given template, he says. *Similarly, Mr Ross Goobey* believes it is not up to institutions to comment about the absolute level of remuneration. "But we do expect it not to be at the expense of shareholders."

There are several obstacles to a satisfactory solution. One is that board remuneration committees tend to be made up of non-executive directors who are also executives of other companies. The suspicion is that many are unlikely to recommend anything that may come back to haunt them in their main occupation. Some fund managers are also afraid to be too vociferous for fear they may lose business or that they will end up showing remuneration packages received by their own boards in a bad light.

Another problem is that institutions *simply do not have the time to scrutinise* every single board contract. Directors' pay is *increasingly* in the hands of consultants who are able to advise on how a particular package compares with others in the industry. This process, however, *can easily lead to a system* in which directors are paid a "going-rate" which is itself ratcheted continuously higher as pay packages leap-frog each other.

Institutions stress that the idea is not necessarily to limit the absolute amount of remuneration. Where a board is delivering value to shareholders, even the highest packages may be worth paying. The problem is to ensure that bad performance is not rewarded in the process. A future revision of Cadbury may have to address this point.

The right approach, many fund managers believe, is not necessarily to set rigid rules on remunerations packages. The right approach may vary from company to company, but Cadbury could have gone further in making disclosure requirements which, for example, might make it harder for companies to secure a higher pension for directors by paying them a large salary increase in their final year.

Peter Montagnon

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* Basis Edinburgh Fund Managers weighted average discretionary sample (and weighted average overseas equities) as monitored by the WM Company compared with the WM2000 ex property weighted average (and weighted average overseas return) and the Caps time weighted median return (and time weighted median overseas return) to 31 December 1993. † As at 28 February 1994. *Past performance is not necessarily a guide to future performance.* The value of shares and the income from them may fall as well as rise and investors may not get back the amount invested.

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1984-88	15.21	18.15
1985-89	17.29	19.74
1986-90	11.09	13.74
1987-91	10.09	11.56
1988-92	13.56	13.75
1989-93	16.91	17.82

Source: CAPS, Weighted Average Balanced Fund - *Cumulative Annualised Returns (%) to 31 December.*

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The price of shares and units and the income from them can go down as well as up.

Pension funds – or, more precisely, their trustees – are gradually yielding to years of lobbying by bankers on the attractions of derivatives. While trustees continue to exercise caution, there is a growing acceptance that derivatives now constitute one of the day-to-day management tools needed by fund managers. The most common use of derivatives is for asset allocation purposes.

Tracy Corrigan discusses the growing acceptance of derivatives

A tool for altering risk profile

"Asset allocation is normally the first stage," says Mr Tony Whalley, investment director at Scottish Widows. "It is easy to understand and most people can see the benefits. Very few trustees will turn around and refuse permission to use derivatives for this purpose."

As fund managers have *become more sharply focused* on picking the right market, rather than picking the right stock, the importance of efficient asset allocation has increased. For example, if a fund manager has a heavy weighting in UK stocks, but decides there are better opportunities in the US market, he can shift his exposure immediately by using stock index futures. In contrast, liquidating a portfolio of actual stocks and selecting new stocks can be a time-consuming and expensive process.

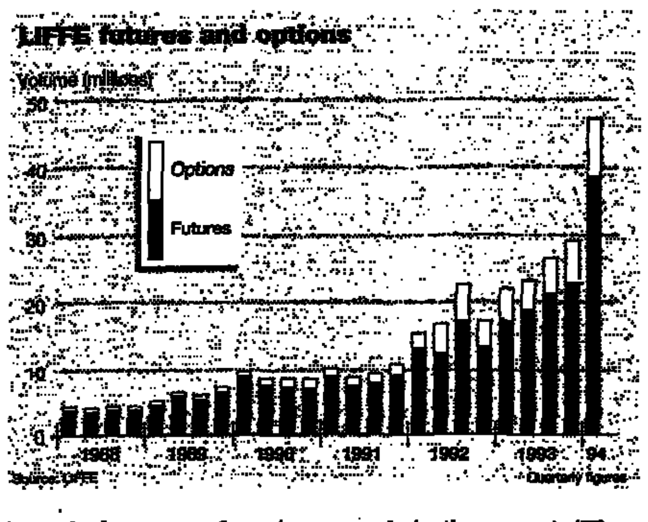
Futures can also be used effectively by fund managers when they are expecting a large inflow of cash. They can use futures to take advantage *of an immediate market opportunity*, ahead of the cash inflow. Fresh impetus was given to the use of derivatives by pension fund managers in the UK by the clarification of the tax position in the 1990 Finance Act.

A year later, the Securities and Investments Board produced rules on "'efficient portfolio management'", outlining when the use of futures and options was *an acceptable* practice.

Perhaps the most important boost for derivatives came from the publication two years *ago of guidelines on performance* measurement developed by the London International Financial Futures & Options Exchange (LIFFE). These guidelines, in suggesting how to report derivatives trades so that trustees could more easily assess how and why derivatives were being used, greatly increased the level of comfort among trustees. The fact that these standards were approved by the National Association of Pension Funds gave further weight to the argument.

However, most trustees keep a tight rein over the use of derivatives by imposing a limit of 5-10 per cent on the proportion of the fund which can be invested in derivatives at any given time.

"You really have to talk through the reasons for using derivatives with trustees," said one specialist. "If they say they are not happy with 5 per cent (as a limit), we say what about 2½ per cent."



However, there are some within the pension fund industry who believe that the industry's own performance measurement criteria are inappropriate, and that this is restricting greater use of derivatives.

"Pension fund managers tend to think that if the market is down 10 per cent and *they are only down 8 per cent* they have done well," argues one derivatives expert. "There is too much incentive to become a median performer, and too little to show a bit of flair."

Certainly, while anyone with money in a pension fund is probably mainly interested in absolute performance, pension fund managers do often seem obsessed with relative performance. This is the result of the way they are assessed - most are measured against indices, and also against competitors.

The potential growth in derivatives' use by pension *funds remains substantial*, both in the UK and elsewhere. In the UK, for example, most *fund managers do not tend to* hedge their foreign currency exposure.

Since the amount of pension fund assets in the UK totals *more than £400bn, and the typical* asset allocation is around 25 per cent in overseas equities and 5 per cent in overseas bonds, it can be assumed that *there is significant exposure to* foreign currency risk.

But the fact is that many fund managers are doing very little about their currency exposure, arguing in some cases that they are not clever enough to separate the currency component from, say, a US equity investment.

However, because most managers do not hedge foreign exchange risk, to do so can be perceived as risky. "For a UK pension fund manager to hedge currency risk is to take a huge bet against a performance benchmark, since that is usually unhedged," explains Mr Patrick Lee of pension fund consultants R Watson & Sons.

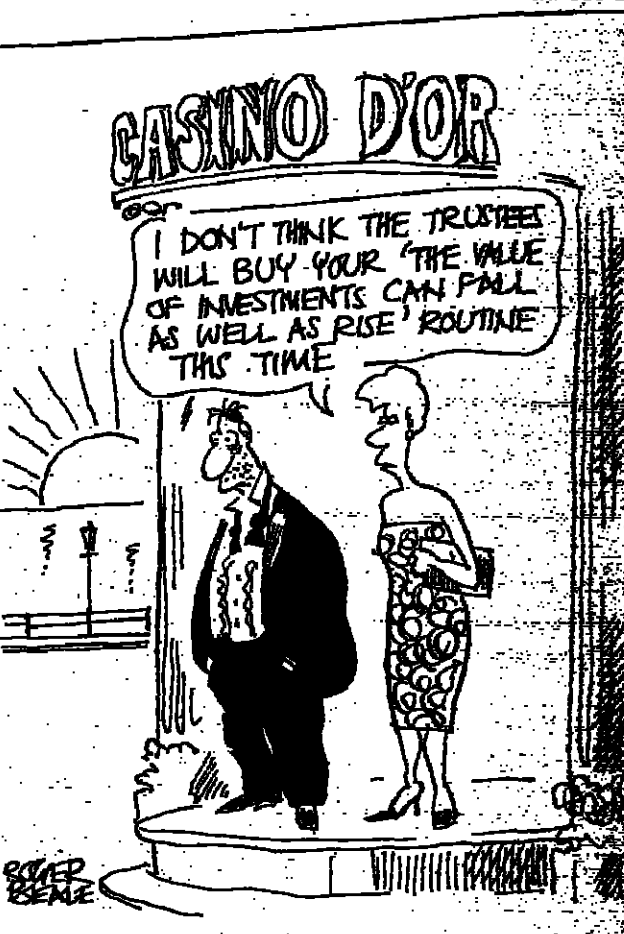
US fund managers, who usually have a smaller proportion of their assets overseas, nevertheless tend to be more concerned about currency risk and are more likely to hedge.

More US fund managers are starting to use currency overlay programmes, to separate their bond and stock exposure from currency exposure. The idea is that good value in a bond or stock *market does not* necessarily mean good value in its currency. An overlay strategy can be used to separate these decisions.

Despite some nasty experiences in the first quarter of 1994, when financial markets around the world slid rapidly, the broad trend is for fund *managers around the* world to continue to diversify their investments. As a result, the need to use derivatives for asset allocation and for hedg*ing is set to increase* substantially, as more managers and trustees grasp their complexities, and put in place the necessary systems to use these financial instruments.

But trustees are right to be cautious. They have only to look at some of the disaster stories at companies – most recently Procter & Gamble's loss of $100m after tax on swap positions in the first quarter – to see what can go wrong.

"At the end of the day, derivatives are ostensibly a tool for altering risk profile. They do not change the basic rule that if you get it right you make money, and if you get it wrong you lose, they merely alter the amounts involved, and certainly don't provide a free lunch or conjure up an extra 2 per cent in performance," warns Mr Whalley of Scottish Widows. "Their main benefit lies in the *additional flexibility* they afford the fund manager."



John Thornhill on stock lending

Helping to oil the market's wheels

Stock lending has seemingly become inextricably linked with the antics of Mr Robert Maxwell. The press magnate's infamous habit of borrowing stock from one part of his empire to prop up loans in another has brought the concept into disrepute in many minds.

But as respectable fund managers never tire of pointing out, Mr Maxwell was not involved in stock lending or borrowing so much as stock stealing.

There is general agreement that the legitimate practice of stock lending – whereby big fund managers lend bonds or equities to brokers for a few days or weeks to cover short positions – is highly desirable. It helps oil the market's wheels by making it easier for brokers to buy and sell stocks. "It is ultimately in our interests and those of our clients to have a liquid market. That is why we lend our stocks," says Mr Michael Robarts, director of Fleming Investment Management.

London has become the centre of lending for many European and far-east stocks while New York controls the US market. The UK market is regulated by the Bank of England, which has drawn up a code of guidance for those wanting to borrow and lend, and the Inland Revenue, which must give prior approval to all participants. It also keeps a close eye on who lends what to whom to ensure it takes its slice of the profits in tax.

> London is the centre of lending for many European and Far East stocks while New York controls the US market

Mr Richard Weir, director-general of the Institutional Fund Managers' Association, says: "The Bank of England, together with the Inland Revenue, has done a fantastic job in establishing a regulatory scheme for stock lending. And if that scheme is applied as it must be then the procedures are wholly safe."

The big institutional owners of stocks are normally quite willing for their fund managers to lend stock so long as the trustees are kept informed and are assured of the quality of the collateral against which it is lent.

Investment trusts, for example, are often knowledgeable and happy participants. Unit trusts are normally less so because of potential problems of redemption. In many cases, the commission earned for lending the stock helps offset the administration fees of running the fund.

But there is a developing trend among big institutional funds to lend their stocks directly to brokers themselves rather than conducting it through their custodians. CIN Management, the British Gas pension fund and PosTel are all active in lending stocks direct.

Mr Peter Harris, of the marketable securities division of CIN, which owns more than £8bn of UK securities and £4bn of international assets, says: "We started lending UK securities in the 1970s and when we started to build up our international portfolio it seemed natural to lend that too. We had been approached by our custodian to lend our stock but they were offering to take 50 per cent of our revenue. We knew the people we were lending to and thought there was no reason why we should not do it ourselves.

"We work on a percentage fee basis but it can be highly variable. In the UK it is anything from ¼ per cent to up to 1 per cent of the value of the stock lent. But on the international side it can be as low as ¼ per cent up to a maximum of 2½ per cent," he says.

Others attest that the UK stock lending market has become highly competitive, deterring many fund managers. Mr Roberts, of Fleming, says: "Because institutional investors in the UK are so dominant there is an excess supply of UK equities so rates of lending are very low. It is a borrowers' market and they can be choosy about what they offer as collateral. There are more lucrative opportunities to make a turn in lending out the stock of rarer European companies." More than 90 per cent of the stocks that FIM lends are overseas securities.

But the balance of power may swing back towards the lender in the UK because of the proposed changes to the settlement systems. The reduction in the settlement period from 10 days to five and the eventual introduction of the Crest trading system should ensure stock lending becomes even more important to ensure adequate liquidity. There are fears that otherwise stock will be immobilised with the registrars and there could be some panic in the market.

Some fund managers, however, do not participate in the UK market because of the nature of the collateral offered. Receiving cash as collateral can create problems because lenders are taxed on the interest earned. Bank guarantees or highly rated bonds provide a more acceptable alternative. But it is becoming more common in the UK to offer equities in the form of short-term Talisman certificates (STCs). Some fund managers worry that such collateral is inherently risky. Any lurch in the stock market could seriously undermine the security of that collateral resulting in equities being sold at uncertain prices to replace existing stock.

For that reason, Mr John Lambert, operations director at Schroders Investment Management, advises his clients not to lend stock in the UK. "Stock lending with bad collateral is not worth the hassle for people like me. I would rather refuse a deal based on the wrong collateral than create extra risks for my clients.

"I have always had problems with short-term Talisman certificates as collateral because of their poor visibility. You cannot see the value of the stock behind them," he says. "The broader worry is that if many others think the same, then liquidity will suffer."

Some large fund institutional investors, notably the insurance companies such as Norwich Union and the Prudential, are happy to accept STCs. But other institutional investors argue it is easier for insurance companies to justify risk to distant policy-holders than it is for fund managers to do so to immediate clients. Some insurance companies privately share the concerns over the quality of collateral and suggest the Bank of England should tighten up *their guidelines*.

But other insurance companies defend their actions by suggesting the risk is only theoretical. "I am not aware there has ever been a default in the stock lending market," says one manager. But, the doubters argue, that does not mean there will never be one.

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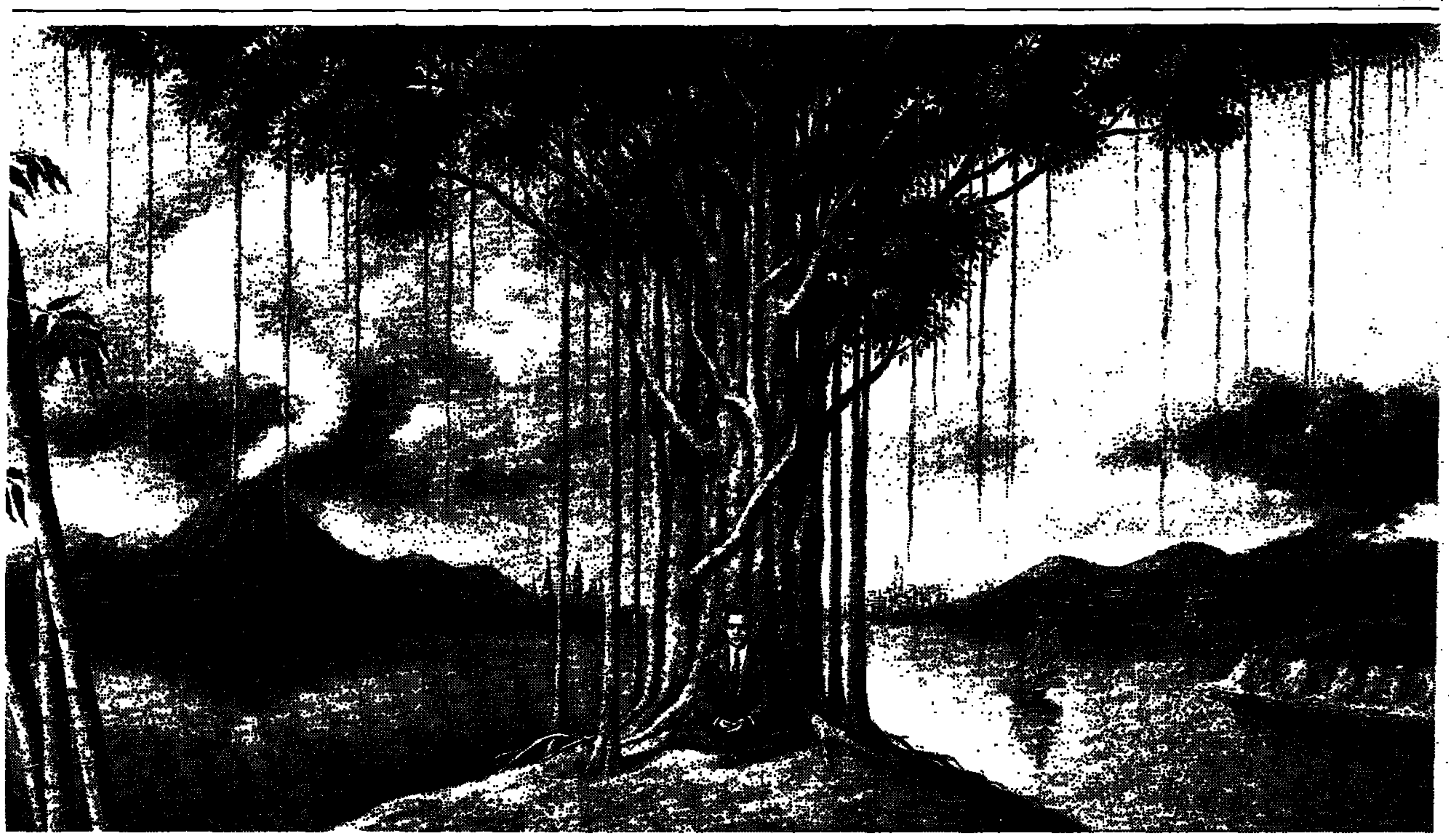

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Wednesday April 27 1994

■ Banking: opportunities as well as clouds on the horizon
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■ Stock market growth path may not be so smooth
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The rise in US interest rates and concern about the Chinese government's ability to control its economy are clouding the outlook for Hong Kong, whose claim to be a financial centre of consequence is being tested, writes **Simon Holberton**

A test of nerves

This is Hong Kong's year of living dangerously. It is a year when the colony's claim to be a regional financial centre of consequence will be severely tested.

Unusually, the tests it now faces have nothing to do with the Sino-British row over Hong Kong's political development. Britain and China appear to have reached a tacit agreement to draw a line under that dispute and are in the process of sorting out the remaining, mostly non-political, issues which need attention before the mid-1997 handover of sovereignty.

The problems facing Hong Kong come from the US and China, and are a mixture of politics and economics. They could delay one of the most remarkable transformations in Hong Kong's ever-changing corporate personality or, at worst, threaten its new-found and potential financial might.

US interest rates are on the rise and, because of the link between the American and the Hong Kong dollar, that means Hong Kong's interest rates are also heading up. The change in the direction of interest rates – initiated by the US Federal Reserve in February – has already had an unsettling effect on the colony's financial markets, although US rates have risen only by three-quarters of a percentage point.

Financial markets have been nervous because they know the change in the US interest rate cycle heralds the end to cheap money. And the effect has been immediate: share prices have come under pressure and are 20 per cent to 30 per cent off their highs of early January; sentiment towards the colony's overheated property market has turned cautious.

Most analysts have convinced themselves that the property market will not crack: that Hong Kong in 1994 is not Tokyo in 1989. Instead, they talk of a slow, orderly deflation in property values, with prices falling between 10 per cent and 20 per cent in the coming year.

However, orderly corrections of overheated markets are rare; it is more normal for them to overshoot and a sharper correction in prices cannot be ruled out. This possibility has grown in recent weeks with a marked change in sentiment towards Hong Kong's property market – where transactions appear to have diminished – and property companies listed on the stock exchange.

The rise in interest rates has also coincided with a shift in sentiment towards China. While China may still be the "growth story" of the 1990s, in the short term, there is concern in Hong Kong about the Chinese government's ability to control the economy. That, together with the difficulties of doing business on the mainland, is causing some business people to look elsewhere in Asia for investment opportunities.

"The Chinese think there is an endless appetite out there for their companies," says one investment analyst. "Let's see how they manage their economy over the next six months."

Further clouding the short-term outlook is the possibility that the US might not renew China's Most Favoured Nation (MFN) access to the American market, and the imminent death of Deng Xiaoping, China's diminutive and increasingly frail senior leader.

Hong Kong is populated by gamblers and the smart money is on MFN renewal. The calculation is based on two words and one set of initials: North Korea and AT&T. President Clinton cannot afford to add China to his list of north-east Asian woes; on the contrary, he needs Beijing's support if he is to achieve his aims on the Korean peninsula.

Mr Clinton also faces strong domestic pressure from US manufacturers who are looking at the world's largest emerging market for high-tech imports and manufacturing. Already, there are signs that moderates on Capitol Hill are preparing the way for Mr Clinton to bury the MFN issue once and for all.

The effect of the death of Deng would be more problematical. Although much talked about, few believe that it has been fully discounted in Hong Kong's markets or psyche. One finance director of a large Chinese conglomerate was only half joking when he observed recently: "I'm not totally sure that the old Chinese money won't be switched into Switzerland when Deng dies. No-one knows, that's what makes this town so exciting."

Capital flight, excitement and uncertainty are nothing new to Hong Kong. But they were probably not at the head of the checklist which persuaded many of the world's leading financial institutions recently to flock to the colony.

Since 1991, Hong Kong has increasingly looked like a centre they must be in. They have been lured not only by the prospect of China and the role to be played in the intermediation of its financial needs, but also by the explosive growth in corporate Hong Kong's financing needs.

Getting a slice of that lucrative business has been one of the reasons behind the startling expansion of investment banks in the colony. Goldman Sachs' presence in Hong Kong is approaching 300 staff, up from about 130 a year ago.

Similarly Salomon Brothers, which has put Hong Kong on an equal footing with New York, London and Tokyo as one of its regional business centres. Salomon's staff numbers have risen to 200 from 65 a year ago; it recently announced the formation of a Hong Kong "syndicate desk" which will be responsible for Asian equity transactions.

The arrival of the Americans has had a large impact on Hong Kong's financial markets. The US houses have kindled US investors' interest in Hong Kong equities but, more than that, they have pushed aside the traditional British brokers who have tended to be more narrowly focused.

US securities houses are at the forefront of market innovations (for Hong Kong at least) such as "book building" for a new issue. They have brought expertise to the emerging derivatives market in the colony and have been prime movers behind the creation of a corporate debt market in Hong Kong.

Hong Kong is laying siege to title of Asia's location for the arranging and trading of syndicated debts. Virtually over night a "dragon bond" market emerged in Hong Kong last year. Some US$3bn of bonds were issued last year, most of which were lead-managed by Lehman Brothers. In the first quarter of this year a further US$1bn have been issued.

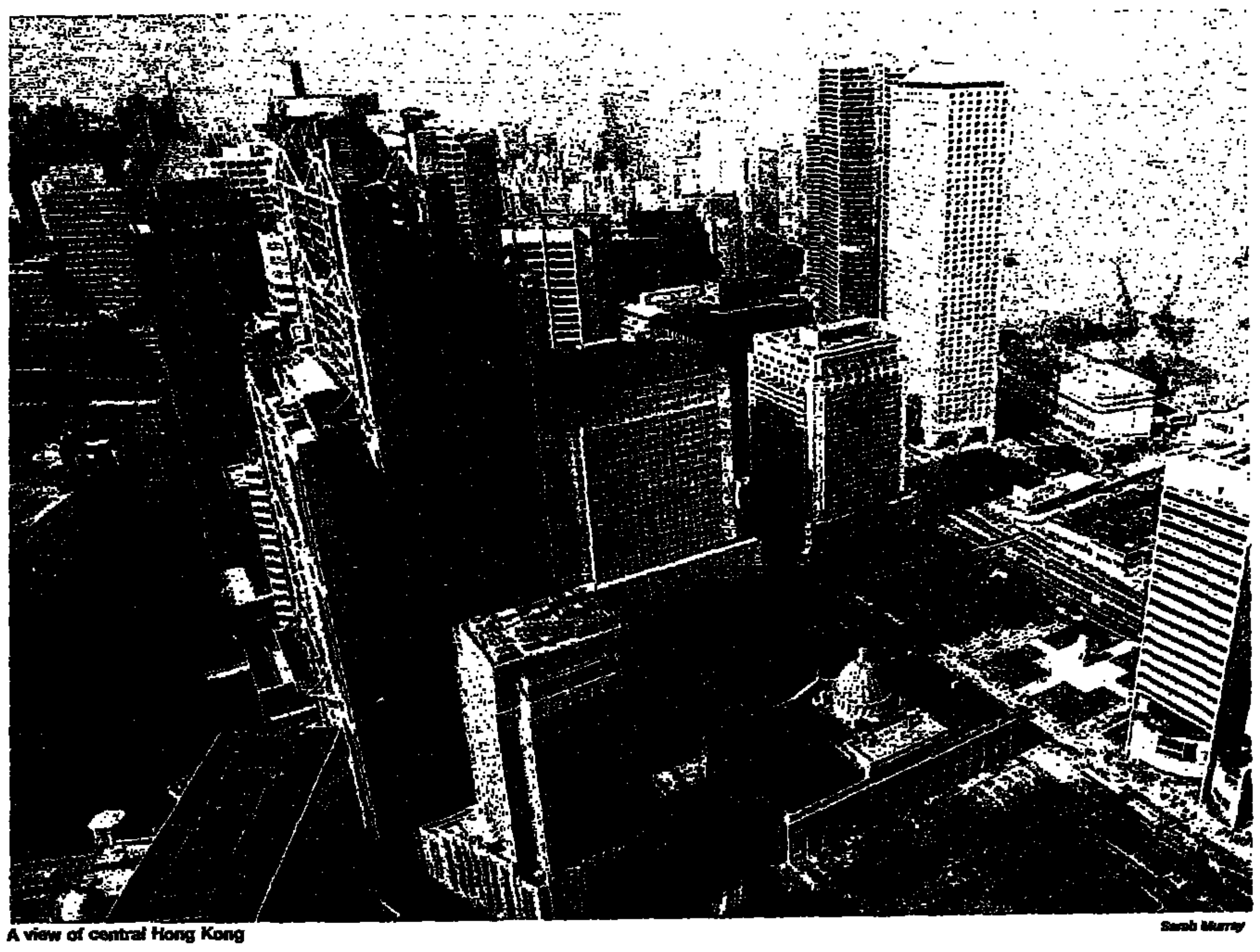
An indication of the tough competition in this sector of the colony's financial markets was given earlier this month when most of the Lehman team joined Peregrine, a local merchant bank and broker. Peregrine is firmly of the view that equity-dominated Asia will have to develop a long-term bond market to finance its development.

S.G. Warburg, the UK merchant bank, agrees, believing there will be a "spectacular" growth in the debt market in Asia on the back of infrastructure development. Underlining Hong Kong's importance to Warburg is its decision to station a main board director in the colony from this summer.

In 1991, corporate Hong Kong tapped the equity market for HK$37bn. In 1992, that had nearly doubled to HK$67bn. By 1993, when corporate debt also appeared on the scene, corporate Hong Kong – which by this time included the first of China's state-owned companies to be listed in the colony – raised HK$87bn in equity finance and HK$33bn in debt finance, mostly convertible bonds.

The poor performance of the Hong Kong stock market – under pressure from rising interest rates and the special uncertainties which China currently poses – has done much to take the shine off the world of corporate finance. In the first three months of this year, just HK$8.6bn has been raised in equity and debt – half the amount of the same period a year ago.

There is little doubt that many recent arrivals in Hong Kong have geared up for the volume of issuance seen in 1993 rather than that expected in 1994. But for those who can stay in the race, the rewards should be there.

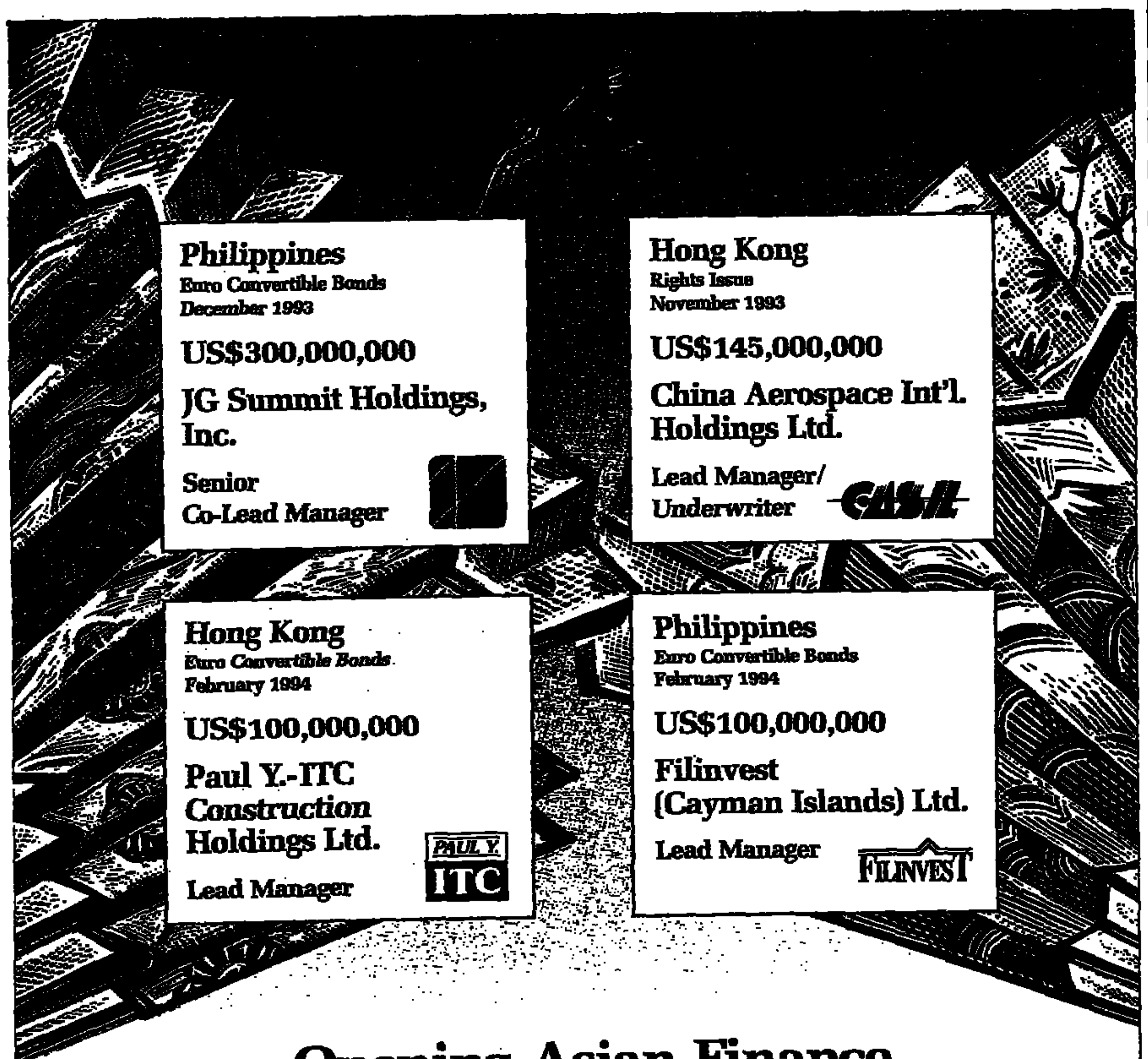


A view of central Hong Kong

Sarah Murray

IN THIS SURVEY

Editorial production
Gabriel Bowman



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Simon Holberton gives his assessment of the political mood

Patten reforms make headway

A calm that has not been seen since before the arrival of Mr Chris Patten, its populist governor, almost two years ago, has returned to politics in Hong Kong.

Whether this is because the eye of the storm is presently passing over the colony, or because the storm has run its course cannot be known with total confidence.

But what is clear is that ever since the breakdown in Sino-British co-operation on Hong Kong's political development – especially since February, when the colony's legislative council (LegCo) passed the first stage of Mr Patten's democracy legislation – both sides have moved to take the heat out of the issue.

China has scaled back its attack on the governor and his pro-democracy supporters in LegCo. For his part, Mr Patten has drawn back from engaging in the high-profile political campaign promised late last year and is watching the LegCo process of ratifying, or amending, his second reform bill, with cool detachment.

He is watching LegCo ratify or amend his bill with detachment

Apart from lowering the volume of the abuse it directs at Mr Patten, there are plenty of signs of China's new attitude. Beijing now appears prepared to settle some outstanding issues relating to Hong Kong's economic development.

Prospects have brightened for a resolution to the dispute over financing Hong Kong's multi-billion dollar airport and railway. Some in the colonial government are hopeful of an agreement before the summer; pessimists look to the autumn.

There are also indications that China will permit its surrogates in Hong Kong to contest elections under the terms of the Patten provisions.

The Chinese Communist party's main grassroots political organisation, the Democratic Alliance for the Betterment of Hong Kong, seems likely to run candidates in the elections due this autumn for "district boards", the lowest level of local government in Hong Kong.

The better atmosphere, however, may be no more than inaction born of distraction. A less optimistic interpretation of current events is that China's leaders have their hands full with more pressing matters, such as getting control of the economy and jockeying to secure a place in the post-Deng Xiaoping leadership of the country.

Whatever the case, the Hong Kong government has some cause to feel pleased with itself. Mr Patten's first political reform bill got through LegCo with a higher-than-expected vote of support. The bill cleared the way for this September's district board elections and municipal council elections in March next year.

The governor's aides are quietly confident that his second reform bill – which seeks to broaden the democratic franchise for the LegCo elections to be held in autumn 1995 – will also get through relatively unscathed, if only because the bill is too difficult to amend substantially.

On balance, this is probably correct, although Mr Patten's plan to increase democracy by enfranchising the colony's working population is seen as vulnerable to amendment. Under this proposal, Mr Patten envisages dividing the colony's working population of 2.7m into nine "functional" electorates along industry lines.

This is likely to be opposed by conservative and independent members, who together may have a majority to block the proposal. Together, they may amend the provision so that the nine new functional constituencies resemble the existing 21 constituencies which represent business and professional interests.

It is less certain, however, if a majority exists to block Mr Patten's other proposal which so angered Beijing: the method of electing 10 LegCo members in 1995 via an electoral college.

Mr Patten has proposed that the 347 district board members elected this autumn form a committee next year and from among their number elect 10 LegCo members. Conservatives will attempt to amend this provision to bring it more in line with China's wish to see a committee which consists of four broad sections of Hong Kong society.

Soon after Mr Patten unveiled his political proposals in October 1992 LegCo supported his proposal for the election committee. Although Beijing's pressure on individual members has eroded some of this support, even conservative members are unsure if they can defeat this measure. The recently announced merger between the United Democrats and Meeting Point will make the Democratic Party, with 17 followers, the largest party in the 60-strong LegCo. This group will support Mr Patten.

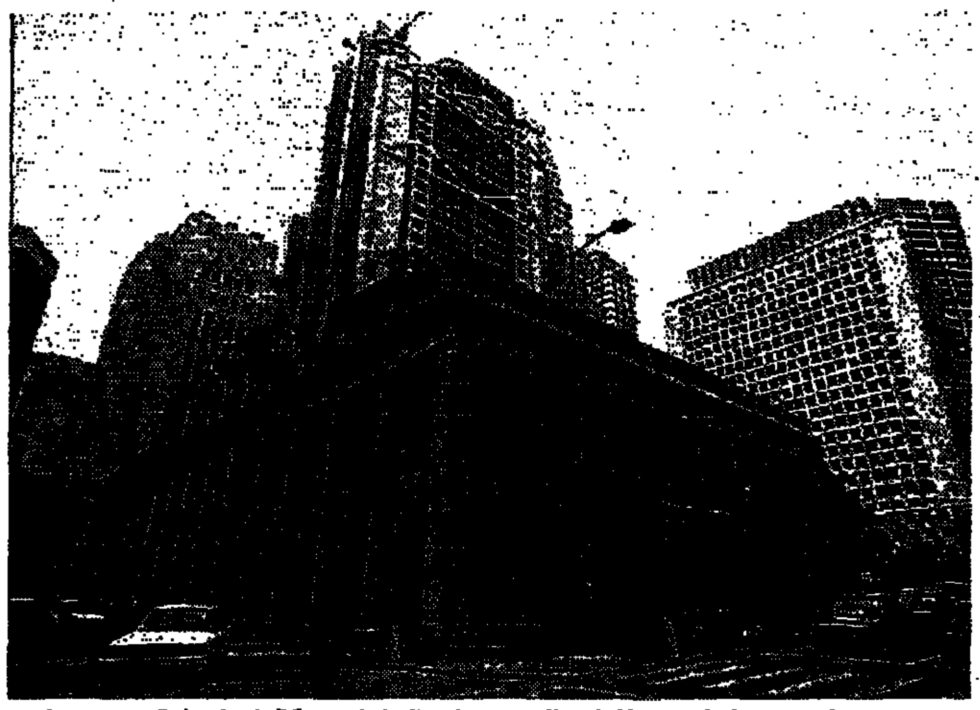
The prevailing view among middle-of-the-road LegCo members was summed up by one recently as follows: "Ironically, the hardliners in Beijing and Chris Patten are on the same side. He wants his bill to go through and so do they, so they can tear it up in 1997. It would be more difficult for China to tear it up if the middle view prevails."

China is, however, keeping its powder dry.

Among much fanfare and sabre rattling it launched last summer the "Preliminary Work Committee for the Preparatory Committee for the Hong Kong Special Administrative Region" – to give the PWC its full name. As a precaution against failure in talks with Britain, which were then under way, one of its first tasks was to draw up a specification for elections to be held in the second half of 1997.

However, according to one member of the PWC, the committee is unlikely to come up with recommendations that are set in concrete. "There is a long time between now and 1997, much can happen and we want to retain flexibility," he says.

Such an attitude casts an interesting light on China's threat to disband the LegCo elected in 1995 upon its resumption of sovereignty in mid-1997; it suggests that Beijing may want to assess the outcome of the elections before it makes any firm decision.



The Legco council chamber building, with the Hongkong and Shanghai Bank in the background *Tony Andrews*

Government House in the centre of Hong Kong *Tony Andrews*

Tony Walker reports on the view from Peking

The speck that looms larger

Ask a young resident of Beijing or Shanghai what his or her view is of Hong Kong and the row with Britain and the reaction is likely to be one of bored indifference.

Typical of the responses was that of the representative in Beijing of a foreign joint venture who said simply: "It doesn't affect me in any way that the talks (with Britain) broke down. In fact, I couldn't care less about the issue.

"To me, Hong Kong has been doing fine for decades like this, I don't think there is a need for political change."

In the eyes of many Chinese, including an educated urban elite, Hong Kong is a distant appendage which is destined willy-nilly to return to the motherland's embrace at midnight on June 30 1997. Arguments about the arrangements for the handover are details.

Chinese officials like to give the impression that they view Hong Kong through a long-distance telescope in which the colony is a mere speck, but in reality Hong Kong looms larger, though not nearly as large as Hong Kong residents might imagine.

Sharply differing perceptions of scale between Beijing, the sedate imperial capital, and the distant hyperactive trading post of Hong Kong are not the least of the problems that have clouded the issue in a sometimes cantankerous debate over the colony's future under Chinese rule.

Beijing's insensitivity to the real concerns of Hong Kong residents on a whole range of issues is partly a product of these conflicting perceptions from opposite ends of the Chinese land mass. It is also, of course, a function of the gulf between respective laissez-faire and authoritarian systems.

China's handling of the recent case of the Hong Kong journalist jailed for 12 years for "spying and stealing state secrets" is a case in point.

By any standards, the penalties meted out to the reporter, who published details of China's gold sales and its plans for exchange and interest rate reform in the Chinese-language Ming Pao, were harsh.

In Beijing, the case barely rippled the surface, however. If there was a view discernible among Chinese it was that the Hong Kong reporter deserved some form of punishment for traducing a bank employee.

Needless to say, a contrary opinion did not appear in the official press. A Chinese journalist summed up what seemed to be a common attitude when she said that the reporter had "become the victim of a political game" while China and Britain remain at odds over Hong Kong.

In the colony itself, the jailing of Xi Yang brought protesters into the streets, elicited a complaint from Governor Chris Patten and was widely and understandably regarded as an ominous portent for press freedom post-1997.

But Chinese officials, with their long-distance view of Hong Kong, are unlikely to have been much moved by these protests, just as they generally remain impervious to criticism of their clumsiness in addressing the concerns of Hong Kongers over threats, real or imagined, to political and economic freedoms.

Beijing's appointments to the Preparatory Work Committee, which acts as a shadow government in the run-up to 1997, show how an opportunity has been missed. The PWC, headed by Qian Qichen, the Chinese foreign minister, is mainland-dominated, suggesting few concessions to China's critics in Hong Kong.

Feelings in Beijing towards Hong Kong are almost devoid of sentiment. With its tangled colonial history, Hong Kong is still regarded as something of a "western barbarian creation". No Chinese poet or writer has ever waxed lyrical about the barren rock that was home to a collection of fishing villages before it became a launching place for the opium trade in China.

Beijing officials also harbour lingering suspicions about Hong Kong residents themselves, many of whom fled the Communist revolution in 1949. Behind these misgivings lie the innate prejudices of Chinese of the north and the Yangtse river valley – who dominate the government – towards the southerners and the Cantonese in particular, who predominate in Hong Kong. They tend to be regarded as noisy, avaricious and untrustworthy.

Among Chinese official perceptions, the one that seems to be uppermost is that the colony's status is a "problem left over from history", and as such, must be dealt with in those terms. This is not necessarily forward-looking.

Scarcely a week passes without reference somewhere in the official media to the unequal treaties, infringements of sovereignty and so on. Chinese officials in the past week or so assailed a House of Commons report on the Hong Kong issue, saying that "China is no longer what it used to be when it was bullied and lorded over at will".

But for all the mis-perceptions, wilful and otherwise, there is little sign of Beijing losing its keen appreciation of Hong Kong's value as an international conduit, and increasingly as a destination for mainland investment.

Powerful Chinese corporations are flocking to Hong Kong, strengthening business ties with the centre. In turn, this is providing a useful educational function for a sometimes remote leadership. Indeed, many of the younger Chinese businessmen most active in Hong Kong are the sons and daughters of senior Beijing cadres, including Mr Deng Xiaoping himself.

While the political relationship may be fractious, business continues. This was so even at the height of the cultural revolution when nervousness in Hong Kong peaked about its neighbour.

Mainland businessmen make no secret of Hong Kong's value as a launching pad for their broader international ambitions. It might be a cliché, but if a place like Hong Kong did not exist the Chinese might be obliged to invent one.

Interview with the chairman of the futures exchange

Handling down days

On January 3 of this year, his first full day on the job, Mr Ivers Riley could only watch as the key futures index plunged 1,060 points. As newly-installed chief executive of the Hong Kong Futures Exchange, he could be forgiven for viewing the fall – which prompted three intra-day margin calls – as less than auspicious.

But to Mr Riley, a veteran of the derivatives world, the fall proved one thing: the Futures Exchange which he had inherited was not going to crumble in the face of massive volatility or rampaging bears.

"It gave me an absolute validation that I was right; that the mechanism had been fixed. Because of the reputation from 1987 (when the effects of the global crash were exacerbated by the closure of the colony's stock and futures exchanges) it was felt that maybe it could not handle big down days: but it worked perfectly," he says.

"That gave me a base to go and talk to international companies, to say that not only is Hong Kong telling you it has fixed its problems, it has also proven it has fixed them. That allows us to move forward, and so I've gotten more aggressive than I had planned in terms of looking at new things to introduce."

Introducing programmes and contracts is very much Mr Riley's thing. It is he who, in the mid-1970s, was responsible for the introduction and institution of a trading programme for the first listed put options; more recently, he launched a raft of products on the American Stock Exchange, including Hong Kong Index warrants.

His plans for the Hong Kong market are still under wraps, though he is certain to bring in China-related contracts and, next year, currency options. There will also be an overhaul of existing contracts, the bulk of which are dormant – the gold contracts trades four a day for pricing purposes; futures contracts on the Hang Seng sub-indices and interest rates are likewise inactive.

Mr Riley says: "I am making it quite clear to other exchanges that we would like to be original. We would like to be first and therefore the concept would be to build contracts down to the very last detail."

But the immediate matters on his agenda are more nuts-and-bolts concerns: growing demand for and interest in derivatives has triggered a rapid increase in the number of traders on the floor. The trading floor population has more than doubled to 300-plus, and – in anticipation of further growth to 400 and a sticky Hong Kong summer – workmen will descend to crank up the air conditioning and other facilities.

Although Hong Kong's notorious shortage of space is also hurting the exchange's would-be members (the technology-oriented nature of the business puts heavy demand on office space) neither the problems nor the high costs entailed in resolving it have stemmed the flow of international houses coming to the colony. Mr Riley says many market makers are starting to come in, with two big institutions, including Hull Trading, moving in over the next month.

"The concept would be to build contracts down to the very last detail"

The growth of users and anticipated launch of currency contracts which will be traded across different time zones has spurred the second priority: installation of an electronic trading system.

Installing systems may all seem a little basic for a man who started his career at the Chicago Board Options Exchange, but Mr Riley has never fought shy of quitting Rolls-Royce set-ups for less-established brands if the scope for development is greater.

He raised eyebrows in 1986 when he jumped ship from the New York stock exchange (where he was in charge of derivatives, bonds and market data) to the American stock exchange. "I believe in accepting offers when there's an opportunity," he says.

His new appointment (which ran counter to the exchange's earlier pledge to have an ethnic Chinese sitting at its head) is directly related to his overseas experience: Hong Kong wants to be known as an international centre, and is eager to be accepted on a global level. Indeed, this is the dominant theme on the long-term agenda.

Facilitating Hong Kong's role as an international marketplace are its useful global positioning in terms of time zones and geographic location in the most dynamic part of the world and on the doorstep of China. Mr Riley's view of 1997, when Hong Kong reverts to Chinese sovereignty, is simply that it enhances this position.

However, while Hong Kong may still have some catching up to do when it comes to keeping pace with the US, Mr Riley notes a number of common factors between the two markets.

"The institutional side of the market did not develop until there was some confidence in Hong Kong, and that started to happen in 1993 and in late 1993 we saw that not just the mechanism held up but also liquidity was there, so now there is an international institutional customer base mixed with individual money. That is very similar to the US and different to other countries, such as the UK, where there is hardly any public (retail) business.

"Perhaps you get stability and liquidity because of this, because when institutions dry up they tend to do so all at once, but the public may not have the same opinions at the same time so there is no lemming effect," he says.

Also similar is the make-up of the market: 80 per cent of business is carried out by 10 per cent of the players.

Of the differences, Hong Kong's links with China perhaps yield the biggest potentials, and Mr Riley has already opened talks with some of the myriad futures exchanges across the border.

A string of business relationships and deals is likely to emerge over the coming years, and the exchange already provides a clearing service for Nanjing Petroleum.

Mr Riley concedes it is "unfortunate" not to speak the local language (he told American reporters quizzing him on this deficiency after announcing his departure from the American stock exchange that he was bilingual: "I speak English and derivatives") but spent a fortnight learning numbers in Cantonese so he could at least work out what was going on on the trading floor.

On the personal front the biggest difference, he says, is getting used to space measured in square feet not hectares. But he adds: "I would never move into New York City, and yet I love living in Hong Kong."

Louise Lucas

Dealers at the colony's gold exchange *Tony Andrews*

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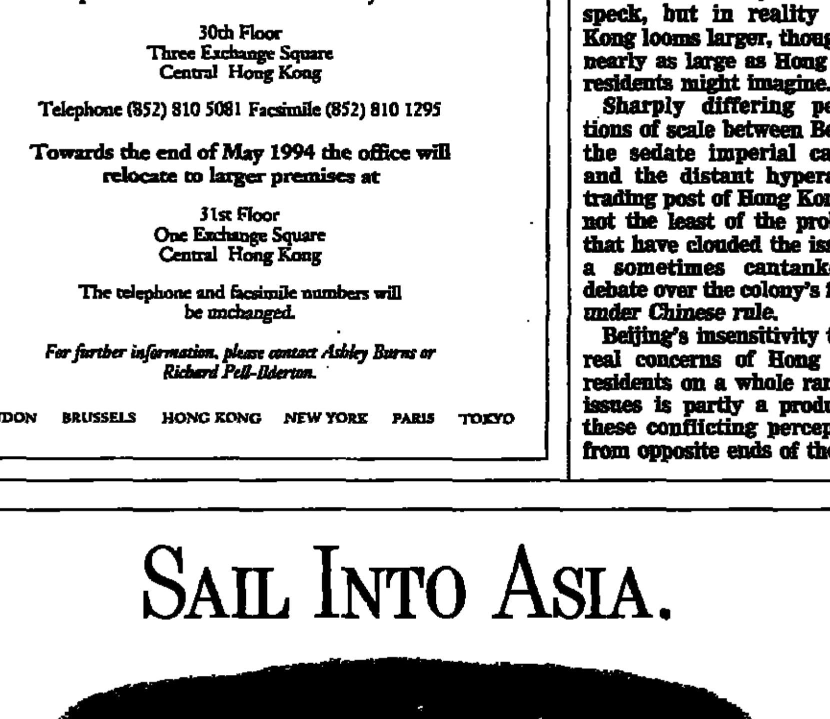

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Richard Lapper considers the prospects for the colony's economy

Realities of the trade links

It is a measure of the changing realities of Hong Kong that the possibility of economic slowdown in China, *rather than the political* uncertainty which still surrounds the impending transfer of sovereignty in 1997, casts a bigger shadow over *economic prospects* .

Last year, despite the breakdown of Sino-British co-operation, Hong Kong's economy picked up speed with *gross domestic product* growth of 5.5 per cent, the highest rate of increase since 1988. Per capita GDP increased by 4 per cent to reach $18,500, a level *that exceeds that of the UK.*

Heavy government spending on the new airport at Lantau Island, which is designed to safeguard Hong Kong's role as an *international* financial centre, was one of the reasons.

Irrespective of diplomatic spats over the airport's *financing*, public spending on building and construction increased by 54 per cent last year, contributing to a 5.5 per cent rise in domestic capital formation.

"Considering it is a dead project, there's a hell of lot of work going on," said one senior executive with one of *Hong Kong's* largest trading companies, glancing towards *Victoria harbour where half of* the world's dredging fleet is engaged in reclaiming land for what is the world's largest construction project.

The *overwhelming impetus* has come from China, with China-linked trade and capital flows offsetting lower demand *in some of Hong Kong's* traditional export markets.

Both local businessmen and foreign investors regard the prospect of Chinese rule with equanimity. Any political risks associated with the transfer of power in 1997 are outweighed by the promise and *opportunity created by even* deeper integration with the world's fastest-growing economy.

Political risks associated with the transfer of power in 1997 are outweighed by the promise of integration with the world's fastest-growing economy

Mr Anthony Bellingan, regional research director at Peregrine, a local securities house, says that international sentiment towards Hong Kong shifted decisively in the second half of 1993 when the scale of overseas investment interest simply "drowned out worries *about politics. The economic* realities hit everyone in the face."

Those economic realities revolve around the fit between China's cheap land and labour and plentiful natural resources and Hong Kong's expertise in services, communications, marketing and finance.

Since China adopted economic reform and its open door policies in 1978, Hong Kong's relations with it have become closer. The local business cycle has become more and more synchronised with that of China since 1986, replacing the territory's traditional depen*dence on the US and Europe.*

But Hong Kong's economic *performance last year indicates* that a decisive shift has taken place. Both Hong Kong investment in China and Chinese investment in Hong Kong have seen a *qualitative increase.* Hong Kong is now China's largest external investor, accounting for around two-thirds of its total foreign direct investment value.

As much as 70 per cent of Hong Kong's manufacturing industry – textiles, electronics, toys and watches – has moved away from Hong Kong itself to Guangdong and other southern Chinese provinces, where average wage levels are less than a fifth of those in Hong Kong.

Mr Michael Cartland, *Hong* Kong's secretary for financial services, estimates that as many as 3m Chinese are now employed in China by interests *owned or controlled from Hong* Kong.

Yet most of these companies continue to rely on Hong Kong as a source of management expertise, *financial services* and marketing support, and help stimulate the growth of the colony's service sectors. Mr Cartland says Hong Kong companies increasingly specialise in "both upstream and down*stream activities, such as prod*uct design, production management, technical support, marketing and material sourcing".

Statistically, this *linkage is* most apparent on the trade front, especially in the growing importance of re-exports, goods processed in China and exported through Hong Hong to third countries, or goods imported *through Hong Kong* and then sold to China.

Last year, re-exports grew by 20 per cent in real terms, following an increase of 29 per cent in 1992. The rise reflected rapid growth of the China *trade – re-exports to China* rose by 29 per cent, re-exports from China by 17 per cent, while those not involving China rose by only 1 per cent.

And it was sufficiently strong to offset entirely a 5 per cent reduction in Hong Kong's own domestic exports which declined by 5 per cent, mainly because of slack demand in the most important overseas markets.

Trade relations with Guangdong are particularly close – Hong Kong takes up about 80 per cent of Guangdong's external trade. Overall, the proportion of Hong Kong's trade involving China has increased from 17 per cent in 1980 to 56 *per cent in 1993.*

At the same time, Chinese investment in Hong Kong has grown apace. Mr Cartland loosely estimates Chinese investment in Hong Kong at between US$12bn and US$20bn, an *amount* which is "probably larger in value than that from the US and Japan".

There is little doubt that Chinese interest in property is one of the factors fuelling last year's 50 per cent plus increase in property prices.

Mr Cartland says trade patterns were "broadened and deepened" with Hong Kong's connections extended beyond the southern China. One fact reflecting the "permeability" of this relationship is that a quarter of Hong Kong dollars are already circulating in China. That amount could increase, especially after May this year when the Bank of China becomes the third authorised *note issuer.*

The negative aspect of this integration is that Hong Kong's future prospects might now hinge to a much greater extent on China's own economic prospects.

The abolition of China's most favoured nation status by the US administration would have a decisive impact on the re-export trade, possibly wiping off two to three percentage points off the growth rate. *Most forecasters* regard this as unlikely but a tightening in China's austerity measures, as the country's leaders seek to control inflation, could lead to some slowdown in the re-export business and some repatriation of capital.

The one certainty is that the local business community seems set to spend more and more time examining the Chinese – rather than Hong Kong's economic performance.

KEY FACTS

Area	1,075 sq km
Population	5.902 million
Governor	Christopher Patten
Currency	Hong Kong dollar (HK $)
Average exchange rate, 1992	US$1= HK$ 7.7406
Average exchange rate, 1993	US$1= HK$ 7.7366

ECONOMY	1992	1993
Total GDP (HK $bn) [1]	745.4	822.8
Real GDP growth (%)[2]	5.4	5.5
Components of GDP (%)[1]		
Private consumption	60.4	60.8
Total investment	29.4	28.6
Government consumption	8.7	8.7
Exports	143.0	142.5
Imports	-141.5	-140.6
Annual average % growth in		
Consumer prices (%)	9.4	8.5
Ind. production (%)[2]	2.0	-1.3
Retail sales volume (%)	12.0	6.9
Property prices (%)[2]	40.5	6.2
Share price index (%)[3]	25.0	120.4
Growth in money supply (%)		
M1	30.9	14.0
M2	14.0	14.9
M3	12.4	13.9
Growth in volume of trade (%)[2]		
Total export volumes	20.4	14.8
Re-export volumes	28.2	21.4
Import volumes	22.4	14.5
At year end		
6 month inter-bank rate (%)[4]	4.56	3.81
Unemployment rate (%)	2.1	2.0
Unemployment level (000's)	56.5	56.5
Trade (HK $bn)		
Domestic exports	234.1	223.0
Re-exports	690.8	823.1
Merchandise imports	955.3	1,072.6
Visible trade balance	-2.5	-2.2

(1) 1993 Q1-3 at an annual rate
(2) 1993 Average for year includes latest available data.
(3) Annual percentage increase at year end.
(4) Rate at end Dec.92, end Nov.93.

Sources: Datastream, Government Secretariat Hong Kong.

■ THE EXCHANGE RATE

Peg is likely to stay

Maybe it is simply because eight is a lucky number in Chinese, but *Hong Kong's* decision in 1983 to peg its currency to the US dollar at a rate of 7.8 has proved to be a successful one for the territory, helping to pave the way for steady and consistent economic growth, Richard Lapper writes.

Despite opposition from some in the private sector, where the policy is blamed for Hong Kong's relatively high levels of inflation, it looks as if the peg will be maintained beyond 1997.

The peg was introduced by the British government to depress speculation against the local dollar following a sharp downturn in the property market and amid growing concern about Hong Kong's constitutional status. Mr Michael Cartland, secretary for financial services, *admits the policy was not well* thought out.

The reform amounted to devaluation – the Hong Kong dollar had been floating at a rate of HK$5.80-5.90 to the US dollar in the months preceding – and helped to boost exports significantly. By maintaining its value within a narrow band – last year it fluctuated between HK$7.72 and HK$7.76 – the policy has helped to provide a stable and predictable framework for both local and overseas investors.

To obtain these benefits, however, the Hong Kong authorities have sacrificed a measure of control over the local economy.

Interest rates must generally follow those set in New York by the Federal Reserve, otherwise Hong Kong would see funds flowing out of the country. Overall, this means that monetary policy cannot be used as a tool to tackle inflation, restricting policy in this area to fiscal and supply-side measures.

This has limited the government's ability to control inflation at a time when prices have risen at a faster rate than both the international and regional average. *Consumer price inflation* amounted to 7.5 per cent in 1988, rising to a peak of 12 per cent in 1991 before falling to 8.5 per cent in 1993.

Worse still, it has contributed to significant distortions in the savings market. With Hong Kong's prime rate shadowing US rates, real interest rates have been negative.

Add to that equation the substantial margins obtained by local banks on their savings deposits – deposit rates have *typically* been *several points* lower than prime lending since 1991 – and there is little incentive for people to put their savings in bank accounts.

As interest rates must generally follow those set in New York by the Federal Reserve, the government's ability to control inflation has been limited and real interest rates have been negative

As a result, savings have been directed elsewhere. Some of the slack has been taken up by foreign currency accounts and life insurance policies – the life industry offers policies which pay annual cash dividends as well as a lump sum at maturity. The biggest impact has been on the local property and equity markets. Last year, speculative fever pushed stock prices up by more than 100 per cent, a level which has proved to be unsustainable with the Hang Seng Index down by about a quarter so far this year.

Property prices have soared. On average, prices rose by at least 50 per cent last year, but in some sectors of the market – such as luxury flats – prices doubled, producing some of the highest property prices in the world.

Mr David Li, chairman of the Bank of East Asia, one of Hong Kong's biggest banks, is the most well-known critic of the policy. In a speech last year Mr Li said that "while the peg served its purpose when it was introduced, it has outlived its usefulness and now threatens Hong Kong's competitiveness and growth."

Mr Ian Perkin, chief economist at the Hong Kong Chamber of Commerce, agrees. He says the policy has "distorted resource allocation" with speculative pressures rewarding borrowers more than lenders. He argues that the main success of the policy has been due to "an incredible dose of luck". With the US dollar falling against the yen and D-Mark over the period, the competitiveness of the local currency has been maintained, helping exports to grow steadily.

In addition, commodity prices have weakened, reducing the cost of imports and increasing the territory's ability to achieve a positive trade balance.

However, increasingly these appear to be minority views. According to Mr Kwok Kwok-Chuen, chief economist at Standard Chartered, "people in the financial services industry accept the economic costs. Overall, it is an affordable price for exchange rate stability."

"The virtues are obvious," says Mr Kwok-Chuen, especially in the run-up *to 1997*, when political uncertainties will be reflected in sharp and unsettling movements of the dollar.

Mr Anthony Bellingan, regional research director with Peregrine Securities, a local securities house, says the removal of the peg would *leave the economy "totally at the mercy of capital flows"*. In present conditions, change would effectively lead to the revaluation of the Hong Kong currency, which he describes as "a fairly appalling prospect" since it could spur even faster asset price inflation.

There are signs that Hong Kong's inflation is falling as a result of structural factors. Especially important here is the shift of as much as 70 per cent of Hong Kong's *manufacturing sector to* mainland China, where it can benefit from wage rates that are less than a fifth of those available in the colony.

And in Hong Kong itself, although the labour market remains tight, there has been a recent relaxation of pres*sures as thousands of emigrants* who left Hong Kong in the wake of the Tiananmen Square massacre in 1989 return. Hong Kong's government is also beginning to tackle another supply-side constraint which has contributed to asset price inflation – the shortage of land.

Even Mr Perkin accepts that there is very little chance of the policy being changed. "Even if you came up with the strongest case in the world the government would not do anything about it," he says. "We've got to keep Hong Kong stable and happy until 1997. They don't want anything that will upset the apple cart."

Mr Cartland, financial services secretary, adds: "They're getting used to the idea. We definitely mean it when we say we have no intention of changing."

RESEARCH

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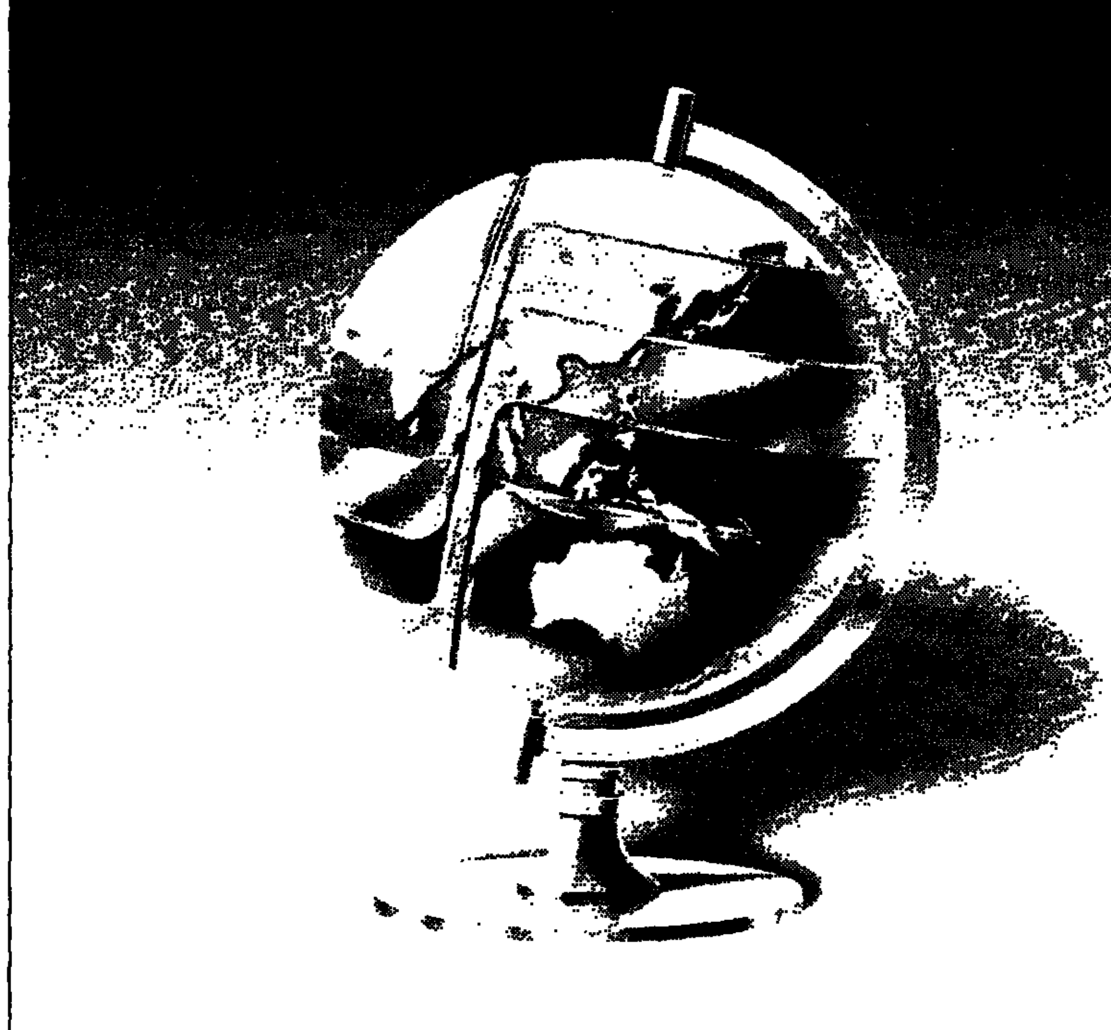

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An extraordinarily profitable market faces a harsher climate

Clouds on banks' horizon

Although it is hard to tell, given the lack of disclosure of basic financial information by many of its 175 banks, Hong Kong heads towards 1997 with the satisfaction of being world's most profitable banking market. The question is whether that will continue, or is the colony heading for a fall?

The huge profitability of commercial banking in Hong Kong became obvious on the London stock market last year as earnings from Hong Kong and the rest of the Asia Pacific made HSBC Holdings the second most valuable company in the FTSE-100, and the most valuable bank in the world outside Japan.

Yet as the new year started, there were growing signs of nervousness among banking regulators – as well as investors – that banks were taking excessive risks to generate earnings. Their exposure to both commercial and residential property lending was increasingly an object of concern.

Hong Kong is an extraordinarily profitable market for commercial banking. Banks commonly generate post-tax returns on equity approaching 30 per cent a year compared to the mid-teens for the best banks in the OECD, while maintaining very strong capital ratios and liquid balance sheets.

"Other banking systems have come to grief – you cannot rule out that in Hong Kong"

There are a number of reasons for the colony's attractions for commercial banks:

■ *Hong Kong has maintained* a consistently high growth rate for the past three years, achieving 6.4 per cent GDP growth in 1993. This has been matched by a surging demand for loans among both consumers and companies, with total bank loans outstanding growing by 13.5 per cent in the year to last September.

■ *Overall price inflation* of 8.5 per cent last year was driven by strong inflation of asset prices. Banks making mortgage loans have been comforted not only by full employment, but a steady rise in the value of assets. This has contributed to very low bad debts – around 0.2 per cent of advances.

■ Because of the lack of a developed bond market, there is relatively little "disintermediation" of banks by companies borrowing money directly on capital markets. "Companies have no other source of financing. It is a choice of equity or loans," says Mr Stephen Li, a banking analyst at Jardine Fleming.

■ Hong Kong is a trade centre for the fast-growing Asia Pacific region, and is also strongly linked to China. There is enormous demand for loans within China, and trade finance transactions – including foreign exchange dealing – can be very profitable for banks with relatively little credit risk.

■ Banks have managed to maintain a relatively generous spread between interest rates charged on loans and paid on deposits partly because of the so-called "cartel" – or interest rate agreement – run by the Hong Kong Association of Banks, which sets rates of HK$ deposits of below HK$500,000.

■ The demand for loans is boosted by negative real interest rates as a result of the peg between the US and Hong Kong dollars. The assumed undervaluation of the HK dollar means the Hong Kong Monetary Authority must keep interest rates artificially low to prevent excessive demand for the currency.

These factors have combined to generate enormous earnings for banks without their having to follow OECD banks in trying to raise non-interest income through selling products such as life insurance to personal customers. Ratios of non-interest to interest income are commonly below 25 per cent.

Yet this apparently perfect banking climate leads to its own concerns. Many compare Hong Kong in the 1990s with industrialised countries in the 1980s whose banks generated large profits only to be savagely caught out by recession, rapid asset price deflation and escalating bad debts.

The Hongkong Bank on Hong Kong Island — Tony Andrews

"There are plenty of examples of other banking systems coming to grief, and you cannot rule out that happening in Hong Kong," says Mr David Carse, deputy chief executive of the Hong Kong Monetary Authority with responsibility for banking supervision.

Mr Carse has tried to persuade banks to be cautious over both residential and commercial property lending. The banks agreed a mortgage loan cap of 70 per cent of the value of property in 1991, and it is now virtually impossible to get more than a 50 per cent mortgage on luxury flats.

All banks proclaim the virtues of their own approach to risk, varying from barring some categories of lending to being selective about borrowers. Mr David Li, chief executive of the Bank of East Asia, says the bank scrutinises borrowers carefully and will not lend for the purchase of land.

Even if Hong Kong avoids the crashes which have afflicted other banking markets, earnings cannot keep growing at the same rate. Mr Paul Selway-Swift, executive director of Hongkong Bank – the HSBC Holdings subsidiary – says loan growth will slow as banks curtail property lending.

He says the Hongkong Bank has set itself a lower growth target for 1994. "I would not like to see loan growth sustained apart from anything else. I would be worried that if loans grew as fast as before, there would not be enough capital retention to justify the risk," says Mr Selway-Swift.

Banks also face competitive threats over deposits. The Hong Kong Consumer Council dealt a serious blow to the interest rate agreement in February when it published a report arguing that the arrangement cost consumers in the colony about HK$5bn a year in forgone interest on HK dollar deposits.

The government intends to respond to the report within six months. Though it regards the agreement as a useful monetary lever in maintaining the peg with the US dollar, there is little doubt that the interest rate agreement has not much more than a medium-term future in Hong Kong.

This raises the possibility of a gradual erosion of the banks' interest margins as they compete for deposits. Some banks say that they will have to introduce charges to compensate, while others argue that abolition could encourage risky lending to cover higher funding costs.

The final cloud on the horizon of the Hong Kong banks is that they are facing pressure to abandon a large amount – if not all of – their traditional secrecy over balance sheets and sources of profits. A working party of the monetary authority has proposed increased disclosure from next year.

Even without pressure from shareholders and the Hong Kong Stock Exchange, banks would probably be forced into greater disclosure by the demands of ratings agencies. As they carry out more international business, they have to demonstrate their strength as financial counterparties.

On the face of it, there could hardly be stronger banks with which to deal than some of the Hong Kong ones. Yet even as they celebrate their place at the top of the world ranking for profitability and capital strength, they face ominous signs of a less easy environment to come.

John Gapper

John Gapper on the banks' future opportunity

The China option

The telephones sit silently on desks beside a single trading screen in a 3m by 2m room in Shanghai. This is the Chinese foreign exchange centre of Standard Chartered, the oldest foreign bank in China. Like other banks, it is gearing up for a flood of business but, as yet, deals with a trickle.

As businesses in Hong Kong have turned their sights to China, switching manufacturing operations into the Pearl River delta, so the colony's banks have rushed to re-establish their presence. China's headlong economic growth and developing financial infrastructure is a big opportunity.

For the local Hong Kong banks serving Chinese families who fled to the colony after 1949 to avoid the Communist state, there is already a network through which to operate. Most hope to move back into China through lending to companies that are transferring operations back across the border.

For the foreign banks that were forcibly ejected from China after the revolution – in the case of Hongkong Bank and Standard Chartered losing the grand buildings which line the Bund in Shanghai – there is a harder calculation about how much capital to invest in re-establishing a presence.

China is a risky market, in which it is hard to judge credit risk. The legal framework is uncertain. It remains highly protected: foreign banks are barred from taking deposits in the domestic currency and have to make foreign exchange transactions through public "swap centres".

One reason for controls remaining in force is that, paradoxically, foreign banks have advantageous tax treatment. The Beijing government is wary of deregulating financial markets before tax reform has been enacted, for fear of giving another advantage to sophisticated foreign banks.

Since financial laws are in a state of flux – this month alone saw the publication of a series of new regulations, and a move to having a single *interbank foreign exchange* market – Hong Kong banks are caught between wanting to establish a presence quickly, and wariness about wasting capital.

Mr Paul Selway-Swift, executive director of Hongkong Bank, says that the bank is keen to re-establish itself in China but cannot waive normal investment criteria. "We take a long-term view, but there has to be a return to the shareholders, maybe not immediately but reasonably soon," he says.

Mr David Kiang, Standard Chartered's chief executive for China, says banks have to be selective. "China is going through some very fundamental and dramatic changes, and we need to find a strategy to cope with that," he says.

Banks are concentrating on a variety of businesses in China:

■ First, they are lending money. There is strong demand for loans in expanding economic areas, partly because of Chinese restrictions on credit to curb inflation. "It is very easy to lend money in China. It is a bottomless pit," says Mr Werner Makowski, managing director of Dao Heng Bank. Most Hong Kong banks are ready to make loans secured on assets in the colony – often to family businesses in Hong Kong. Mr David Li, chief executive of the Bank of East Asia, says margins on lending in China are "much healthier" than in Hong Kong because of demand.

A risky market which remains highly protected and where the legal framework is uncertain

■ Second, banks are trying to expand their securities operations so that they do not have to make all loans from their balance sheets. "We want to move from booking assets to originating and distributing them. China's demand is so huge that we cannot just use our balance sheet," says Mr Kiang. Many have started with the B shares in Chinese companies sold to foreign investors on the Shanghai and Shenzen exchanges, and H shares in large Chinese utilities traded in Hong Kong. There has been fierce competition among commercial and investment banks to underwrite and distribute these.

■ Third, banks are waiting to carry out foreign exchange transactions on behalf of customers trading in China, including multinationals which have set up joint ventures. Until this month, all trades had to be carried out through regional "swap centres" which set varying exchange rates. China had planned to move to a single interbank market based in Shanghai, but has compromised by retaining swap centres as well. Foreign banks such as Standard Chartered hope that they will eventually be able to use their own centres to trade independently rather than through the state.

■ Finally, foreign banks want to develop wholesale transactions business such as credit card processing and cash management which they will be able to sell to Chinese businesses and financial institutions. They regard such operations as safer and more reliable than taking credit risks by lending.

The biggest prize for foreign banks in China would be the ability to take domestic currency deposits. The ability to fund loans through taking relatively cheap deposits has been the backbone of their business in Hong Kong, and the chance to replicate it in China is a tempting prospect.

It is unlikely to be realised soon. Full convertibility of the yuan is unlikely within five years, and loosening restrictions on foreign banks before then will depend on the Chinese authorities feeling comfortable that their own banks can compete on reasonably equal terms with foreigners.

This means that banks will probably continue to tread carefully for some time yet. Mr Makowski says that China is more of a prospect than a reality for many banks. "We are optimistic about the future, but cautious about using our capital for more than seed money," he says.

The stock exchange chairman talks to **Simon Holberton**

Shares and the Chinese

This October Mr Charles Lee steps down as chairman of the Hong Kong Stock Exchange after a remarkable three years at the helm of Asia's most dynamic stock market.

Mr Lee, who retires in accordance with exchange rules, has presided over the market during a crucial phase of its development. He will leave the colony's exchange immeasurably stronger than when he took up the first of three one-year terms in January 1992.

Then the exchange was still recovering from the trauma of past events – notably the 1987 stock market crash and problems with senior management – and the ructions they caused to staff and membership alike. China was barely on the agenda. The introduction of *new technology seemed far off.*

Not so today. The exchange has introduced paperless trading for the most important stocks in the market and further technological enhancements are planned. Moreover, Hong Kong has the opportunity within its grasp to become one of the most important sources of capital for China.

In no small way, this is due to the drive of Mr Lee, 58. A quietly-spoken UK-trained lawyer, Mr Lee negotiated the agreement whereby mainland Chinese companies would list "H" shares on the Hong Kong exchange. This was no mean feat, given that these talks coincided with the bitter dispute between Britain and *China over Governor Chris* Patten's plans for the colony's political development.

"The leaders in China are very pragmatic people," Mr Lee said recently. "They said they want long-term stability and prosperity for Hong Kong. The listing of 'H' shares benefits not only China but also Hong Kong. It puts Hong Kong *on the map as an international* financial centre. It makes Hong Kong the gateway to China. This is a good example of where they do separate economic from political issues."

Mr Lee was born in Shanghai to parents from Guangdong. By the time his family fled China for Hong Kong in 1949 he was tri-lingual – speaking Cantonese, Shanghainese and Mandarin, the language of education. In Hong Kong he attended a secondary school run by the Jesuits.

After school he joined Peat Marwick Mitchell where he trained as a chartered accountant. Although the knowledge he gained was to prove useful in later life, "I couldn't see *myself doing audit all my life.*" After a stint with the Hong Kong government, in 1965 he went to London to study law.

He flirted with student radicalism – once lunching with "Danny the Red", the German student who organised demonstrations at the Sorbonne in 1968 – but left the London School of Economics with a Master of Laws at the end of 1968. Back in Hong Kong, he rejoined the government and was made secretary to a committee *examining* securities regulation and company law.

"We could be a major market for capital formation in China"

The committee's report led to Hong Kong's first unified securities law, addressing for the first time the issue of investor protection. Mr Lee set up on his own in 1970 and in 1978 formed the firm of solicitors Woo, Kwan, Lee & Lo, of which he is still a partner.

In 1988 he was asked by Sir David Wilson, then governor, to join the board of the stock exchange as an independent representative. The four stock exchanges had been unified in 1986 but the new exchange was brought into disrepute first by closing its doors for four days during the global stock market turmoil of October 1987, and *then by allowing preferential* share allocations to council members for new issues.

All of that now seems a long way away. The listing of the first 'H' share in the summer of last year proceeded from a serious analysis by the exchange of its future prospects. According to Mr Lee, the exchange took a critical look at Hong Kong and concluded that the market was rapidly maturing, and the prospect of listing many more local Hong Kong companies appeared dim.

"So we looked for a different role for Hong Kong to play," he recalled. "We could be a major market for capital formation in China. And we could be the link between the Chinese issuer and international investors. We started looking at this in early 1992 soon after I became chairman."

Mr Lee sent a paper to the State Council (or cabinet) of the Chinese government. It was favourably received and persuaded Mr Zhu Rongji – a *senior political figure who was* later to assume far wider control of the Chinese economy – that Chinese companies should accept international financial standards.

"The key – I kept on emphasising – was that the issuers must comply with international standards. I was not happy with 'B' shares. I told *them it was not in China's* interest or in Hong Kong's interest for 'B' shares to be listed in Hong Kong."

The turning point came in September 1992 when the exchange held a two-week seminar in Beijing. In all, some 60 experts from Hong Kong gave presentations on what it means for a company to uphold international financial standards. Lectures included accounting, management, regulation and listing procedures.

"We got 200 hand-picked attendees," Mr Lee recalled. "That really opened their eyes to why things had to be done in a certain way."

Earlier this year the Chinese government said it would *permit a further 22 state companies* to list their shares on foreign stock exchanges. Although some, notably two large power companies and two airlines, may seek a primary listing in New York, Mr Lee is confident that all 22 will have their primary or secondary listing in Hong Kong.

He also cites the performance of Chinese companies that are listed abroad as a compelling reason why Hong Kong is a superior market place for *mainland companies. Brilliance* Automotive, the Chinese auto company that is listed in New York, is today rarely traded, its share price languishing below the offer price.

Similarly, the dual listing of *Shanghai Petrochemical* in New York and Hong Kong underlines the benefit of a Hong Kong listing. "We trade four times the volume of Shanghai Petrochemical shares as does the New York stock *exchange in spite of the fact* that 70 per cent of the issue was first listed there."

Lining up behind the next 22 companies to list are many more – "several hundred," Mr Lee believes. China will under*write the future of the Hong* Kong stock exchange.

Stock market ....Page 6

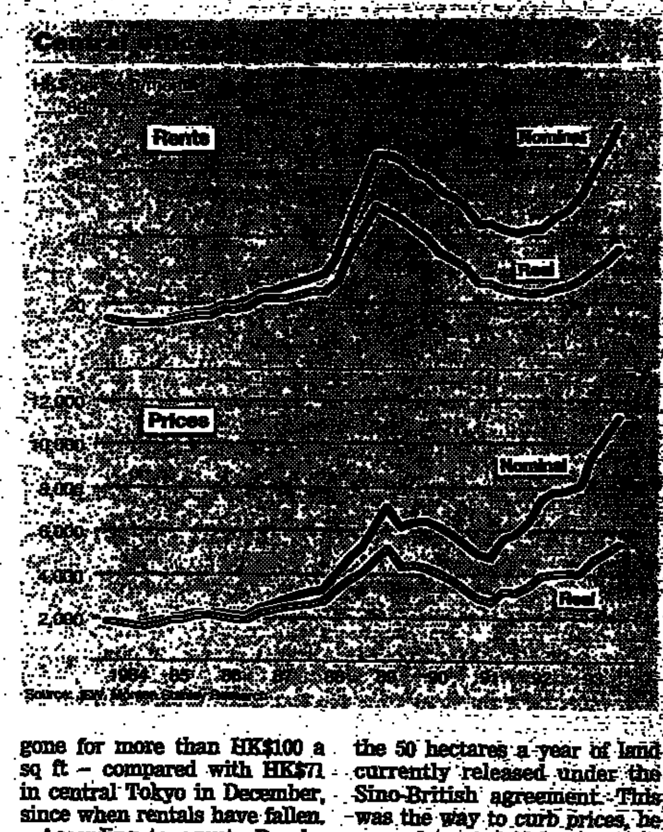
Louise Lucas looks at the property market

Office costs hit peak

Last month 489 people sent off registration forms and deposits as evidence of their intention to pay up to HK$15m apiece for flats that are little bigger than half a standard swimming pool. Just 70 flats were initially put up for offer, though Swire Properties, the developer, lost no time in releasing a further 76.

These homes do not bear illustrious Peak addresses: instead, they are perched halfway down, in the more built-up residential Mid-Levels area. At an average HK$9,728 a sq ft – *or over HK$10m for the smallest* 1,094 sq ft flat – they are still within reach of the colony's newly rich, its speculators and families already on the property ladder.

Within weeks (and after pleas from the likes of Mr Li Ka-shing, chairman of Cheung Kong and Hutchison) the government announced it would *take action. Sir Hamish* Macleod, the financial secretary, has not ruled out market intervention. But he faces a delicate balancing act if he is to avoid the risk of sending prices plummeting. For many – especially for those with memories of property booms and busts elsewhere in the developed world – that is the *question: can it last?*



Mr Peter Churchouse, head of research at Morgan Stanley in Hong Kong, says: "I'm not expecting a crash here. We would have to see some sort of cataclysmic event first.

"We don't have the gearing, *the banks are not in problems* – there are no defaulting property landlords or developers and we are not seeing mortgage defaults, and I think the risk of that is pretty slight. I don't think we are staring a *crash in the face, but at the* same time I think the market's going to start slowing down."

An unexpected demand for flats from returning emigrants was blamed

A deceleration would certainly be timely. Hong Kong has already overtaken Tokyo as the world's most expensive *location to set up office:* according to agents Jones Lang Wootton, average top grade office rentals in the prime business district of Central have shot up 75 per cent year-on-year.

Average *net office rentals* weigh in at HK$75 a sq ft – although one-off units have gone for more than HK$100 a sq ft – compared with HK$71 in central Tokyo in December, since when rentals have fallen.

According to agents Brooke Hillier Parker, shopkeepers field the biggest bills: at HK$545 *a month* they were paying more than double the HK$232 paid by their peers in Tokyo.

At the luxury end of the residential market, Hong Kong prices have risen 350 per cent since 1989; for commercial property, values have increased by 150 per cent over the same period.

Tracking the trend of housing costs – as dictated essentially by the cost of property and interest rates – against *household* income shows that, while the disparity is nowhere near as severe as in 1981, *it* is very much worse than in 1986-87, according to Morgan Stanley.

It is a concern being taken *on board at the highest* levels: in February Mr David Carse, deputy chief executive of the Hong Kong Monetary Authority, wrote to the Hong Kong Association of Banks calling on its members to review their *exposure to the* property market and endeavour to restrict their lending for house purchases to around 15 per cent a year. Total exposure to the property market should be kept to around 40 per cent of *loans in Hong Kong,* he said.

By March, Mr Li was calling on the government to jack up the 50 hectares a year of land currently released under the Sino-British agreement. This was the way to *curb prices,* he argued, not by introducing new taxes which would simply serve to swell government revenues.

Mr Stanley Ho, Macau casino magnate and chairman of Shun Tak Holdings, went one step further, leading a high-powered delegation from the Hong Kong Real Estate Developers' Association to meet Mr Lu Ping, director of the State Council's Hong Kong and Macau Affairs Office and *putting the request for more* land direct to Beijing.

Dissociating themselves from speculation, the developers blamed rocketing prices on lack of construction and an unexpected demand for flats from returning *emigrants.*

Pre-empting them both, the colony's legislative council members have given voice to their concerns. The same week, Mr Lu warned mainland companies not to dabble in prop*erty speculation across the bor*der, saying this could undermine stability and prosperity in Hong Kong.

Finally, since actions speak louder than words, Unisys Corp, the US computer company, *is to shift its regional* headquarters from Hong Kong to Singapore. The action – and one which other multinationals are expected to follow.

Continued on Page 5

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The colony is emerging as the Pacific Rim's biggest derivatives market, reports **Louise Lucas**

Futures exchange shifts to new era

By the end of this year the colony's Futures Exchange expects to see a return to the volumes of business witnessed in the pre-crash era. It has already – last October – paid off the special HK$1.93bn "lifeboat" loan which saved it from bankruptcy in October 1987. It is making a profit. Finally, and with a lot of hard work, it is shifting into a new era: one where it will be defined, not by history, but by its future.

Mr Ivers Riley, who took over from Mr Gary Knight as chief executive of the exchange on January 5 of this year, admits he timed his move to Hong Kong perfectly. He has inherited a mechanism that is no longer vulnerable, and can concentrate on enhancing the products offered and staking Hong Kong's claim as the major derivatives market in the Pacific Rim.

Already traders have access to a raft of hedging tools introduced over the past 18 months: Hang Seng index options with 56 separate contracts for trading, a welter of warrants which now command a total capitalisation of HK$60.6bn and – as of January – regulated short selling.

The field is heavily oriented towards equities. Daily turnover of HSI futures last month surged through 30,928 lots – the highest post-crash level – in the face of massive volatility on both the cash market and the futures market. The HSI Futures has stayed at a ratio of 2.5 to 3.5 times that of the cash market in terms of dollars traded.

HSI options started trading in March 1993 and daily volumes a year later were averaging around 2,255 lots. More market making power is still required to handle liquidity: even so, in the four months since Mr Riley has been in office the proportion of futures trade in options has risen to 13 per cent from 10 per cent and the aim is to bring it closer to 25 per cent over the next few months.

It is all a far cry from the disastrous handling of the 1987 crash, which ensured the Hong Kong Futures Exchange a place in history and cost it dearly in terms of international credibility.

Speculation in the HSI futures mounted in the 10-month run-up to the crash, and the contract became the world's second most traded stock market future. When the crash came, losses were huge and exacerbated by the closure of the Hong Kong stock exchange for four days. Brokers defaulted to the tune of HK$1.8bn, but only HK$22m was in the guarantee fund.

But now, with a return of confidence and liquidity – arguably two sides of the same coin – the exchange is ready to move forward on plans for expansion and development. As it does so, it is tapping into a major appetite for derivative products in the region.

Mr Sunimal Goonetilleke, head of derivatives marketing at Peregrine Brokerage, attributes the demand for derivatives to the volatile nature of the markets and the levels of foreign interest in Hong Kong and Asian markets generally. Additionally, derivatives are being used by investors to access markets which are otherwise semi-closed to foreigners, such as Korea, the Philippines and India.

"Asia's markets are incredibly exciting. Most people believe there is strong earnings potential for companies based in Asia and wherever there's an exciting story, derivatives and the leverage they can give are attractive to a whole host of investors, both domestic and foreign.

"In Hong Kong, all this is still true but you can double it. China is the biggest emerging market, and Hong Kong is the way to it. Everything about Asia applies in an extreme sense to Hong Kong," he says.

"Wherever there's an exciting story, derivatives and the leverage they can give are attractive to investors... everything about Asia applies in an extreme sense to Hong Kong"

The volatility which ripped through stocks and derivatives alike in the early part of the year has slowed somewhat on the Futures Exchange, although volatility on options remains high – encouraging investors to use options contracts to hedge against losses on the stock market and in turn leading companies to engage in index arbitrage.

Volatility is one of the biggest differences Mr Riley noted on taking up his post in Hong Kong, after a career spent on US exchanges: "I'm used to implied volatility of 15-18 per cent at its highs, and here implied volatilities are going north of 30 per cent," he says.

Complementing futures and options, there are now some 300 warrants traded on the Hong Kong stock exchange; this compares with 496 listed companies. A recent flurry among securities houses saw a spate of issues earlier in the year, mostly of blue chips.

Warrants remain highly popular with retail investors, despite soaring premiums. Institutions, which tend to take up warrant issues for leverage or cash extraction, gradually sell down into the hands of small investors who view them as speculative tools and a cheaper entry into the underlying stock.

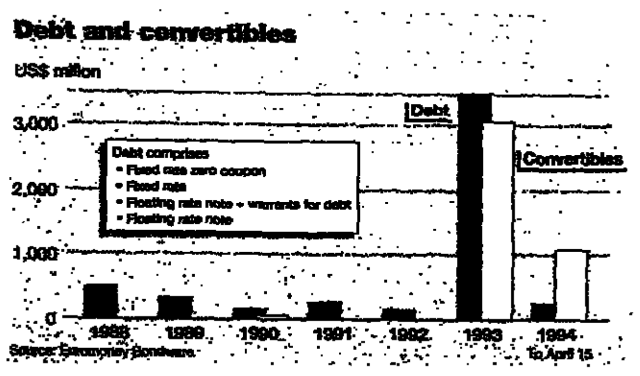
After taking a severe battering when the market came down, warrants are again looking expensive thanks to the retail investors' attitude of buying for what Mr James Vinall, who handles equity derivative sales for SBC Derivatives (Far East), calls "pure and unadulterated speculation" with scant regard to the technicals.

As an example, he says the Swiss Bank warrant on Hongkong Telecom was trading at a 60 per cent premium at one stage, suggesting that the colony's appetite for warrants owes less than it might to fundamentals.

Investment banks – especially the US houses – have been quick to take advantage of the derivatives markets, initially on the Futures Exchange. As of last year, many of these banks have been trading on the OTC market, too.

Mr Vinall says an early interest in indexes has now extended to OTCs on individual stocks. This market remains the preserve of the institutions, OTCs being private agreements between separate financial institutions.

The US and French houses – plus those banks which have staffed themselves up with American options specialists – have tended to dominate this market to date, largely because of the depth of their options technology. Big players include Merrill Lynch, Salomons, Morgan Stanley, Bankers Trust, SBCI and Credit Lyonnais.



■ THE DEBT MARKET

Dragon bonds in demand

For an economy which appears to have scant need of debt financing – the government budget this year produced a HK$15bn surplus and big corporates maintain exceptionally conservative gearing levels – Hong Kong made something of a splash on the debt markets scene last year, raising US$6.5bn in international issues, writes Louise Lucas.

These issues were largely opportunistic – money was cheap and overseas investors were hungry for anything with an Asian flavour – but the investment profile of Hong Kong companies means they are unlikely to prove fair-weather friends to the debt markets at home or overseas.

Investment in China, both on property development and big-ticket infrastructure projects where earnings are slow to come in will ensure a continued focus on debt raising, a trend underscored by the scramble among the colony's key corporate players for credit agencies' ratings.

Last month Wharf Holdings became the first big company to receive a publicly declared long-term debt rating, securing an implied senior rating of A from Standard & Poor's – the best possible as it matches that assigned to the Hong Kong government. Swire Pacific is expected to follow suit shortly.

Wharf, whose interests span property, infrastructure and media, sought a rating with an eye to future calls on the debt markets to fund expansion in cable TV, telecommunications and China.

The stock exchange is also looking to carve a role for itself in the market. Debt securities totalling HK$191.75bn were listed on the Hong Kong market in 1993, compared with just HK$4.6bn the previous year, and a working party is drafting plans for a more active debt market. Investment banks such as Morgan Stanley are keen to promote a secondary market on bond transactions.

The government, after a modest start only four years ago, plans to issue five-year paper later this year. Its programme for exchange fund bills – the equivalent of treasury bills – began in March 1990 with the issue of HK$300m of 91-day bills; it now issues a range of notes with maturity terms of up to three years. The total of all bills, bonds and notes outstanding is HK$39bn.

This has helped promote a significant market for fixed rate paper denominated in Hong Kong dollars, which last year was worth HK$16.5bn. In the first 3¼ months of this year, issuers had already raised some HK$8bn, according to Oakreed Financial Services, a local bond boutique.

The Mass Transit Railway Corporation, traditionally among the biggest players on the local and foreign debt markets, earlier this month launched a HK$1.6bn revolving transferable loan facility, its biggest in five years. The MTRC has commercial paper facilities in New York, London and Tokyo as well as the colony, but proceeds are swapped into Hong Kong dollars to avoid currency exposure.

Earlier this year, Hong Kong launched its first central clearing system for locally denominated debt – the Central Moneymarkets Unit Service – and the Hong Kong Monetary Authority secured Beijing's agreement to run exchange fund debt programmes on a continuous basis where the repayment terms straddle 1997.

Beyond the colony, the creation of 'dragon bonds' – the suitably oriental name for issues emanating from south-east Asia – has met demand among institutional investors overseas by providing a final piece to the world's debt jigsaw. A total US$4.6bn has been raised through the instruments since November 1991, according to Euromoney Bondware.

To Hong Kong's investment bankers the debt market represents an important part of the corporate finance mix as well as a source of income. Peregrine Investments, the pan-Asian corporate finance and securities house, last month poached the fixed income team from Lehman Brothers in a bid to capture a share of the Asian debt market.

Beijing's agreement was secured to continuous debt programmes

Mr Francis Leung, the managing director, said the switch allowed Peregrine to tap into the Lehman team's government contacts while introducing a fixed income and distribution capability to its own customer base. Peregrine has a keen eye turned on the China market when it talks of the potential for debt issues.

"Although it's now relatively easy to raise equity for infrastructure through a listing on the stock exchange, a lot of projects have to be financed by debt. There is a limit to how much commercial banks can finance these infrastructure projects, so you need to come up with a good solution, and one is to securitise the debts.

"Though the bond market in China is not open to foreigners yet, when the renminbi becomes fully convertible foreigners will be able to participate in the China bond market and that may be as big as the US bond market. In particular, China will rely more on the bond market to finance its budget deficit, rather than print money," says Mr Leung.

With the US Fed embarked on an era of tightening interest rates, the bond market in Hong Kong has been hit in recent months – global concerns exacerbated in the colony by its peg to the US dollar.

Mr Chris Nicholas, senior vice president with Lehman Brothers – the US house which has been at the forefront of the dragon bond market – believes many bankers are sitting with mandates to issue bonds in their desk drawers, awaiting better times.

He says: "We have hit a temporary pause, because there is no point in surging ahead when you know investors are not buying.

"I see the market continuing to grow. It is a minor setback. The Eurobond market is down, and the same is probably true for the dragon bond market."

Richard Lapper looks at the prospects for the colony's insurers

Mainland risks underwritten

Mr Michael Haynes, managing director of Swire Fraser Insurance Brokers, the insurance broking arm of Swire Pacific, the low-profile British trading company, is a familiar figure in the factories sprouting up around the rapidly growing southern Chinese towns of Guangshou and Shenzhen.

Mr Haynes now spends at least one day a fortnight in China, fixing insurance for local clients who are shifting their electronics, toy and watch plants across the border to take advantage of wage rates that are less than a fifth of those in Hong Kong.

"There is hardly a company that doesn't have a China relationship," he explains. "You can even imagine the border moving back a little. Southern China could all become like Hong Kong."

By contrast, Mr George Miller, who headed Swire's Hong Kong brokerage operation for more than 20 years until moving back to London in 1991, admits that he barely ever visited the mainland. Nothing illustrates more clearly how things have changed.

In recent years the Hong Kong market has been among the fastest growing in the world. Overall gross non-life premium income in the territory grew by 20 to 30 per cent in 1993 to more than HK$17bn, according to Mr Stephen Ip, insurance commissioner. This followed a 26 per cent increase in 1992 to HK$14.2bn, and indicates that despite inflation of 8 to 10 per cent over the last two years, the market is experiencing real growth of more than 10 per cent per year.

Directly or indirectly, China is the main reason. Investor interest in Hong Kong from both China and overseas has spurred growth of the property market, leading to plenty of work for local construction firms and a big increase in demand for insurance covers.

The new Hong Kong airport is the biggest construction project in the world and the contract to insure it was the subject of fierce competition. Swire, together with Willis Corroon and Gilman Insurance Brokers, a subsidiary of Inchcape Group, were the eventual winners of a deal which should generate more than $200m in insurance premiums.

Premium income from property insurance for the market as a whole rose by 21 per cent in 1992, even though rebuilding costs rose at a somewhat slower pace than property prices.

Only one overseas company, AIG of New York, is currently licensed to underwrite in China, where it is geographically restricted to Shanghai. Yet Hong Kong-based insurers can underwrite some mainland Chinese risks, opportunities which have increased with seven out of 10 Hong Kong manufacturers now based in China.

The contract to insure the new Hong Kong airport – the world's biggest construction project – should generate more than $200m in insurance premiums

Businesses based in China can insure with overseas companies their non-Chinese risks, such as product liability exposures which might emerge on exports to the US. And local brokers, such as Swire, are allowed to handle the insurance needs of Hong Kong companies operating in China.

One area of business in which interest is rising is the provision of cover for privately financed billion dollar energy and transport projects. Nelson Hurst, the UK insurance broker which was listed last year, has formed a dedicated joint venture with Hopewell, a Hong Kong-based conglomerate which has pioneered the development of the build-own-operate or build-operate-and-transfer technique in the region.

So enticing have the prospects become that fresh capital seems certain to be attracted to the sector. Several companies are apparently preparing to step up commitments. Chinese-owned companies registered in Hong Kong, such as Ming An Insurance Company (HK), have become more interested in underwriting commercial risks business.

According to Mr Ip, Chinese companies doubled their overall market share in 1993 from 12 per cent to about 25 per cent of the total life and non-life market. Ms Clare Kwok, deputy managing director of Nelson Hurst Insurance Brokers (Hong Kong), says that the Chinese carriers have all become much more aggressive "mainly in price" over the past three years.

"They used only to do Chinese business. If the risk is small to medium sized, the rate is very competitive."

Ming An, which has an estimated market share of about 9 per cent, is particularly aggressive according to its rivals, picking up CAR and cargo business.

"We are losing business to Chinese companies as they get better known," says one UK underwriter.

A second source of competitive pressure is likely to stem from new overseas companies licensed to underwrite from Hong Kong. The number of insurance companies licensed in Hong Kong has fallen in recent years – from more than 300 to 229 at the last count, according to Mr Ip. Yet an increasing number of overseas companies are interested in obtaining business licences. Most of the newcomers see involvement in Hong Kong as "a springboard to access the Chinese market," he says.

Last year, Mr Ip gave licences to two European companies, Groupe des Assurances Nationales of Paris, and Aachener und Munchener Beteiligungs of Aachen. Six further applications are under consideration and several more foreign companies have expressed interest.

One way or another, the local market looks set for a turbulent time. Underwriting losses in 1992 fell to HK$13.4m (loss of HK$261.7m) and this positive trend appears to have continued last year.

However, there are signs of a return to fierce competition in the commercial risks area. Underwriters accept that rates for commercial risks are insufficient and pressures here could feed through to the rest of the market, such as motor and personal accident.

Louise Lucas considers the record of the market regulators

Watchdogs do their best

Hong Kong's regulators have notched up an impressive tally of opponents spanning small brokers, predatory companies and corporate giants, but the scorecard of wins suggests high profile actions have not always led to retribution being delivered.

Lengthy and costly investigations have not stood in the way of business for companies that have continued to divest themselves of assets and holdings even as inspectors were delving into transactions. Meanwhile, investors continue to fall foul of scams and unlicensed operators.

However, in its biggest battle the Securities and Futures Commission, Hong Kong's corporate watchdog, is generally agreed to have come out on top. The row over the application of the Hong Kong takeovers code pitched the SFC against Jardine Matheson, the HK$39.9bn trading company generally regarded as one of the most powerful bodies in the colony.

Jardine had argued that shareholders were adequately protected by the Bermuda takeovers code, tailor-made for the group by the authorities in its country of domicile. The SFC refused to grant a waiver, leading Jardine Matheson and its associate to quit the colony's stock exchange from the end of this year.

The SFC was backed by the stock exchange, underlining the new era of co-operation between the two. Giving his support Mr Charles Lee, stock exchange chairman, said: "We have done so much in trying to build our reputation. With one stroke of the pen we could have destroyed it. This is something we just can't entertain."

But the row with Jardine is not over. The SFC says that the company – as a Hong Kong company, listed or not – still falls within its jurisdiction. Jardine disagrees.

Where the track record has perhaps been less impressive is in the handling of Hong Kong's smaller fry. The past year has seen two spectacular swoops on companies, complete with hundreds of uniformed policemen and vanloads of potential evidence, but little more than a sheaf of paperwork has resulted from either.

Mr Nicholas Allen, who works for Coopers and Lybrand, was appointed by the government to investigate the corporate activities of Lee Ming Tee's Allied Group – companies which had interests in metal trading, printing, seafood processing and properties – in August 1992. When the investigation started, the 10 companies making up the official and unofficial Allied Group had a combined market capitalisation of HK$7.6bn.

Mr Allen's 688-page report was released more than a year later. It details mechanisms through which, it claims, Mr Lee Ming Tee, then chairman, syphoned shareholders' funds into activities such as the undisclosed control of listed companies, share price manipulation and the funding of stock purchases by the controlling shareholders.

After two spectacular swoops on companies, with hundreds of uniformed policemen, little more than a sheaf of paperwork has resulted from either

However, as yet Mr Allen's endeavours and HK$46m of taxpayers' money have done little to dent the ebullient Mr Lee, who has since stood down as chairman but whose business activities are as prolific as ever. Moreover, Mr Lee sold subsidiaries of the Allied Group throughout the investigations, so that today it is a much slimmer animal than the one which came under scrutiny in August 1992,

A similar investigation targeted the corporate affairs of the World Trade Centre Group, a company previously controlled by the Australian Bond Corporation and two associated companies.

Publication of this report – which will run to more than 1,000 pages, including an appendix – is expected next month. In December, the Commercial Crime Bureau seized crates of possible evidence from the three companies plus four others largely under the helm of Mr Stanley Ho, a Macau tycoon whose empire ranges from ferries to casinos.

As with the Allied Group, the World Trade Centre Group has undergone a metamorphosis since Mr John Lees, the government-appointed inspector, started delving into its affairs.

Nevertheless, market players are concerned that failure to act on the second report will lead to a replay of the investigation into the 1983 collapse of the Carrian property empire, which gobbled up HK$100m in public money but delivered little by way of justice. If the SFC is to send a message that will be heeded by corporate Hong Kong and international investors, it will have to show that, this time, money has not been spent in vain.

More successful has been the onslaught on activities such as trading practices at odds with the interests of the investing public, market manipulation, window dressing and false accounting. Among the bigger fish caught, Peregrine Investments, the Hong Kong securities house, was disciplined for misconduct concerning three of the flotations it handled.

The SFC last September accused the banking arm of engaging in stock trading "which was likely to be prejudicial to the interests of the investing public"; contributing to a restricted free-float in the shares of three newly-listed companies; and failing adequately to monitor client trading activities. Peregrine agreed to pay HK$3.5m to a stock exchange fund.

Over the past year, the SFC has also forced up the price of bids in a number of the takeover situations it has swooped on; and has acted as the saviour of the minority shareholder by pulling significant corporate transactions deemed to be potentially detrimental to small investors.

It has completed "numerous" prosecutions for unregistered dealing, marketing of unauthorised investment products, short selling (covered short selling has now been legalised) and failure to meet disclosure of interests requirements.

New regulations have been brought in to protect clients of foreign exchange agents. The new capital requirement for brokers, allied to other controls, is expected to see up to half the existing Forex brokers go out of business.

At the stock exchange itself – to which direct powers have been devolved from the SFC – big steps have been taken to tighten up on malpractices and to create an environment where both domestic and overseas investors can deal confidently in Hong Kong and China securities.

Office costs

Continued from Page 4

shows that corporates are no longer prepared to swallow the high cost of overheads in Hong Kong. It is a timely reminder that the colony does not have a total monopoly on sophisticated legal and banking frameworks or on bilingual labour forces. Others, too, may have a foot in the China door.

While there is unlikely at this stage to be a mass exodus from Hong Kong, Mr Churchouse expects a phase of trading down: corporate Hong Kong refusing to pay HK$150,000 a month to house staff in big-scale apartments. There is as yet no evidence of this happening, he says, but he believes the point is not that far away.

"Rental costs for housing in good quality apartments are now as expensive, or even more expensive, than they were in Tokyo at the top of the bubble, looking at what would be considered a big flat in each of those markets. However, on a square footage basis, Hong Kong is still cheaper than Tokyo was at the top."

There are other key differences between the two markets: Hong Kong's developers are a notoriously conservative breed, and keep their gearing very low. Individuals have only one mortgage on one house. Multinationals still want a foot in the Asia camp, and preferably close to China.

Companies are already starting to rebel against office rentals, which are now as much as $100 a sq ft in Exchange Square, a development of shiny soaring blocks in the heart of the prime business district and home to the stock exchange and many of the colony's businesses.

While few companies are reluctant to drop the cachet of an address on the square, many are starting to cut floor space and despatch staff to Swire's new development on the eastern part of the island. Here rentals are just one third of those commanded at Exchange Square, which is a 10-minute cab journey away.

With the government now pledged to take action, it is not just the developers and young marrieds that await details with concern. Any steps that might derail the property market hit Hong Kong at its very heart: some 65 per cent of the stock market is estimated to be property-related.

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- *Per capita GDP this year forecast to reach US$20,600 -higher than Britain.*
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■ LIFE ASSURANCE

The young ignore taboo

Hong Kong has "a deep-rooted fear of insuring against death" Tony Andrews

The recent growth of Hong Kong's life insurance companies has been quiet and unobtrusive, but this year the industry has faced the glare of publicity, after allegations of a smear campaign and conspiracy.

National Mutual Asia, the industry's second largest company, in which Australia's National Mutual owns a majority stake, has been at the centre of the controversy, following the defection of its chief executive, Mr Andrew Yang, several senior managers and some 500 of its salesmen.

The company accused the executives of "conspiracy by combining together with others with the intention to injure National Mutual" and has issued legal proceedings.

Substantial damages are being claimed and National Mutual accepts that its sales efforts have been disrupted.

Mr Yang spearheaded the company's growth in the 1980s, when it built up a business to challenge the dominance of American International Assurance. Labour shortages in the colony could make it difficult to replace the lost sales force, especially at a time when competition is intensifying. Both Chinese and overseas insurance companies view Hong Kong as a springboard for entry into the Chinese market ahead of 1997.

In particular Top Glory, a Chinese company in which China National Cereals, Oils and Foodstuffs Import and Export, has a significant interest, took over the business of NZI Life from the UK's General Accident in December last year and is expected locally to build up a challenge to the existing market leaders.

Along with AIA and National Mutual, these include ManuLife, a Canadian company which has made expansion in south-east Asia a priority.

Each of the three dominant companies – which together control about three-quarters of the life assurance market – have had to overcome initially strong cultural resistance to the basic idea of life assurance.

"Traditionally, the Chinese didn't buy life assurance. There is a deep-rooted superstitious fear of insuring against death and the extended family has provided security for dependents," explains Mr John Snelgrove, general manager (employee benefits and corporate affairs) of National Mutual.

"Traditionally, for a lot of people it was a taboo," adds Mr Edward Lau, agency vice president of ManuLife. However, geographical and social changes, partially linked to Hong Kong's rapid economic growth, have led to a cultural shift. National Mutual – and its rivals – have found the younger generation of Hong Kong Chinese much more sympathetic to the idea of life assurance.

It is "gaining widespread acceptance, particularly from the younger generation," says Ms Janice Wallace, analyst with Goldman Sachs in Hong Kong. Some 30 per cent of the Hong Kong population of 5.6m is in the 21-35 age group and 58 per cent under the age of 35 according to the 1991 census.

The sales forces, often in their 20s and 30s, have found it easy to sell a relatively simple "whole of life" policy denominated in US dollars, which offers an element of life assurance protection, a guaranteed surrender value and an annual cash dividend.

In a savings market where interest rates on bank deposits are negative in real terms, the policy has offered an alternative to higher risk investments in the property and stock markets.

"We are not judged on our investment yield, as we would be in the US or Europe," says Mr Snelgrove. "People are looking for long-term guarantees."

Additionally, fears about the political and economic future of Hong Kong have increased the attractions of a savings vehicle which offers guaranteed protection in hard currency, especially for the territory's socially and geographically mobile middle classes.

The property boom has also generated some demand for life assurance. "Chinese people like to acquire property. As soon as you do that you need some protection against liability," says Mr Lau.

Certainly, the evidence shows a sharp increase in life insurance sales since 1983. Premium income has risen from HK$1.2bn in 1983 to HK$13bn in 1992, with sales of individual policies rising from HK$6.4bn to HK$8.2bn in 1992 alone, an increase of 28.2 per cent.

A total of 1.97m policies are now in force. The percentage of the population insured has risen tenfold to about 20 per cent over the same period. National Mutual's last annual report indicates that sales continued at a similar pace in 1993, with premium income from individual policies rising by 24 per cent to HK$2.5bn.

Industry executives believe the prospects for further growth are good. Mr Snelgrove suggests that as younger people continue to buy whole of life and endowment products, the generation who bought life policies in the 1980s will buy a different range of products as they grow older, allowing the industry to broaden its range to include annuities, for example.

Ms Wallace, of Goldman Sachs, says Hong Kong is still a relatively untapped market. In 1991 life insurance premiums amounted to only 1 per cent of GDP compared to 6.2 per cent in Japan and 9.3 per cent in South Korea.

"The large pool of uninsured population, much of which is experiencing rapid gains in wealth and standards of living, is expected to provide sustainable growth," says Ms Wallace, in an assessment of National Mutual's prospects which could equally apply to other big players.

Extra potential for the industry could be generated if the Hong Kong's government adopts a compulsory pension savings scheme. Officials are currently mulling various schemes to provide for an ageing population.

Above all, the territory's life companies have the additional attraction of the world's largest – and as yet totally undeveloped market – just over the border in China.

AIA is already off the mark in this respect, having acquired a licence to trade from Shanghai in 1992. National Mutual has a representative office in China. Mr Snelgrove says the company is particularly keen to win access to the market of 63m people in Guangdong province.

Richard Lapper

Dealers inside the Hong Kong Stock Exchange Tony Andrews

■ THE STOCK MARKET

Growth path may not be so smooth

The Hong Kong stock market, like Topsy, has growed and growed.

In the first quarter of this year 19 new companies were listed, including Yizheng Chemical Fibre, the mainland polyester fibre maker which notched up the third biggest share issue in the colony. These companies together raised a total of HK$4.5bn.

Today, with a capitalisation of HK$2.33 trillion, the Hong Kong stock market ranks as the world's seventh largest, just behind Canada and ahead of Switzerland. The market has not only grown in dollars, it has developed in terms of stature as well, underscoring its aim to secure international recognition.

Over the past 18 months, listing rules have been overhauled to the benefit of minority shareholders; clearing and settlement now take place on a continuous net basis; automated order matching and execution is in place; regulated short-selling has been given the green light; and a framework paving the way for mainland China enterprises to be listed on the Hong Kong stock exchange is on the statute book.

Starting with Tsingtao Brewery, China's best-known beer, seven state-owned enterprises are now partially in the hands of Hong Kong and overseas investors. Two more will follow in the next two months and a further 22 have been selected for an overseas listing, all bar four of which are destined for the Hong Kong market.

Clearly for the stock exchange – like vast majority of the companies it regulates – China will continue to be the major focus of expansion. However, as demonstrated by last month's release of its blueprint for development over the years up to and through 1997, the exchange is maintaining a tight grip on the domestic running of financial markets. On the agenda are a greater reliance on self-vetting and disclosure, which will be improved to meet the new demands incumbent upon it, and the development of a more active debt market.

Equity issues made up 89 per cent of last year's turnover on the stock market, with warrants accounting for the remainder: debt played a negligible role. Of the US$4bn of convertible securities issued in 1993, only three were listed on the Hong Kong stock exchange. "Initiatives to facilitate the listing and trading of more debt issues would appear to be a top priority for the exchange," says its March consultative paper, The Way Forward.

A subsequent paper proposes putting greater information in the hands of shareholders – not least directors' salaries and perks, and an end to the practice of allowing banks to ferret away "hidden" reserves – which will serve to bring standards of disclosure more firmly in line with those in the UK and elsewhere.

However, the exponential growth path mapped out in the boardrooms of the stock exchange is unlikely to proceed as smoothly as it looks on paper.

Firstly, the volatility which has ripped into markets across the world has triggered each-way daily swings of 3 or 4 per cent on the Hang Seng Index; global securities houses have hacked back their Hong Kong weightings, and the anticipated easing of property prices will rebound badly on the stock market, reflecting companies' heavy exposure to property.

Last year, the Hang Seng Index rose 115 per cent on a tide of overseas cash and strong corporate earnings. Securities houses vied with each other for the most hyperbolic buy signals – culminating with Mr Barton Biggs, Morgan Stanley's director of global strategy, who fell back on the words of LSD guru Dr Timothy Leary to describe his elation: "After eight days in China, I'm tuned in, over-fed and maximum bullish" – and a new issue was deemed a failure if it did not attract a hefty oversubscription.

The market capitalisation at the end of 1993 was, at 347 per cent of GDP, the highest in the region. Daily turnover last year averaged HK$4.9bn, up 70 per cent on the previous year, and reached a record HK$17.2bn on January 7 of this year.

In 1994, however, liquidity and over-bullish statements have been more notable by their absence. Initial public offerings, for their part, have often performed poorly on their debut after modest take-ups. Performance for the year to date has seen Hong Kong languish at the bottom of world league tables, although latterly a tentative trickle of Japanese buying has helped recoup some of the losses.

Secondly, investors are again focusing on the political and economic risks attached to Hong Kong: power struggles, a potential hard landing for the economy and poor trade relations in China all undermine Hong Kong ratings.

The China risk weighting on Hong Kong, especially as the sell-by date looms, is unlikely to endear new candidates. Already two long-standing old hands – Jardine Matheson and Jardine Strategic – have said they will quit the exchange at the end of this year, thus extricating themselves from post-1997 jurisdiction under the Special Administrative Region government.

Thirdly, a small but growing band of market practitioners is unhappy at the direction the stock exchange is taking. They regard its stance on regulatory issues as over-zealous, and believe that on other proposals – such as the introduction of a second board, a notion which has been quashed by the exchange – it lacks flexibility.

These are not criticisms that stock exchange directors are likely to lose sleep over – indeed, given the exchange's history, replete with corruption, scandals and a jailed former chairman, such attacks must seem like praise – but they show that the exchange will be unable to implement each and every proposal in its latest blueprint for reform without a fight.

The exchange also faces a powerful adversary when it proposes doing away with stamp duty, which now stands at 0.15 per cent to both the buyer and the seller. This is a strong source of revenue for the government, but the exchange – and members – argue that removing the duty would facilitate technical and short-term trading strategies, so enhancing liquidity.

Louise Lucas

Market liquidity (in HK$bn)

	Placements, IPOs† & Rights	Dividends Paid	Warrants/ Privatisations	CBs‡	Net Total Call
1987	52.0	(17.3)	2.2		36.9
1988	21.0	(22.8)	(3.5)		(5.5)
1989	15.9	(35.5)	(16.2)		(35.7)
1990	17.8	(32.4)	3.4		(11.2)
1991	27.2	(40.7)	9.8		(3.7)
1992	63.7	(50.1)	3.6		17.2
1993	77.4	(57.1)	10.3	33.1	63.7
1994*	60.0	(64.0)	10.0	25.0	31.0

*Estimate †IPOs = initial public offerings ‡CBs = convertible bonds Source: Warburg Securities

WHEELOCK PROFILE

Solid group core investments, dependable recurrent earnings and low gearing at 9%.

Wharf 1993 results – 33% profit growth and 70% asset growth.

Strong performance and expanding landbank in development properties.

Merchant house ambitions realised in Climax, Virgin and Maison Mode joint ventures.

Defined China strategy – measured approach in 5 regional hubs.

Strong foundation and commitment in Hong Kong.

WHEELOCK

A Force For The Future

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